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## **POLITICAL SECURITY IN AUTHORITARIAN SYSTEMS WITH A RESOURCE RENT ECONOMY: A RESULT OF THE “SOCIAL CONTRACT” AND HIGH RESOURCE PRICES?**

The protracted political crisis in Venezuela, which escalated at the beginning of this year, combined with the ongoing economic recession, showed that the state's ability to extract maximum rents based on resource wealth does not always contribute to political stability, guarantee legitimacy of the current government or ensure economic security during price breaks for rent resources. In a non-diversified economy, political security is undermined, since the condition for obtaining a stable income is not satisfied, which hinders the fulfillment of the “social contract” and a stable standard of living now and in the immediate future. Over the past five years the Fragile State Index (FSI) of Venezuela has deteriorated, increasing from 76.7 points in 2014 to 86.2 in 2018 – the Fund for Peace ranks Venezuela at the level of High Warning. Higher values FSI for 2018 have such rent-based economies as Nigeria (99.9 points, threat category – Alert), Angola (89.4 points, High Warning). Nevertheless, we can observe authoritarian regimes where indicators of stateness are at a relatively acceptable level: for example, last year Saudi Arabia received 70.2 points (“Elevated Warning” level), and Qatar is considered to be a very stable state, only receiving only 48.1 points.

Some studies (Cuaresma et al., 2011: 528; Treisman, 2010: 19; Smith, 2004: 242; Caselli, 2006: 17) show that resource richness ensures the stability of authoritarian regimes because of the possibility to extract as much rent as possible. The problem is that many studies do not sufficiently disclose the conditions under which this thesis can be considered correct. Authoritarian regimes are analyzed as one; some studies do not take into account the peculiarities of resource regulation, price commodities period, and the pursued policy in relation to these circumstances.

In this regard, it is possible to set the following research question: in a resource rent economy, what are the factors of autocratic policy which prevent (or, on the contrary, increase) threats to political security and economic downturns caused by resource price fluctuations? The focus of interest is on the behavioral strategies of authoritarian rulers in the context of rising and falling energy prices. Why do some autocrats, with

low oil prices, have an incentive to “predatory” behavior, while others follow a long planning horizon?<sup>1</sup> We believe that these research puzzles can be investigated utilizing a case-study strategy, as well as descriptive statistics, which will allow for the correction of the hypothesis or the formation of new ones. However, the limitations for the conceptualization of “political security” must first be defined.

### WHAT IS POLITICAL SECURITY IN AUTHORITARIAN SYSTEMS?

The conceptualization of “political security” seems to be a non-trivial task, which demonstrates a catch-all problem: from ensuring the rights and freedoms of citizens, the heterogeneity of the population due to nationality, standard of living, or religion, internal tensions due to political repression, to the neighboring states with civil war, external intervention, etc. This tendency for catch-all and all-inclusive feature is explained with political decision-making process, which results in solving national security issues both in a narrow and broad sense. Therefore, while speaking about political security in authoritarian regimes which are already characterized by low levels of the rule of law, protection of human rights and freedoms, it is necessary to reduce this concept to terms and criteria that will be appropriate for authoritarian political systems, in order to compare the political security of one authoritarian regime with a rent resource economy of another one.

Our approach to conceptualizing political security in authoritarian regimes is based on the following ideas: (1) the concept of *failed state* is taken as the basis due to the fact that there are many authoritarian states which are unable to guarantee the rule of law, are unrecognized at the international level, or have not formed strong institutions of state management (Guedes da Costa, 2008: 565); (2) the reduction of the normative and ideological engagement of discussions about political security by raising the question of the implementation of the so-called “social contract” in terms of T. Hobbes (cited in Gros, 1996: 456). The latter is understood as the implementation of political decisions, the provision of public goods and public services to solve problems of well-being. (3) As a key quantitative indicator, we use the Fragile States index – a comprehensive indicator for stateness developed by The Fund for Peace. It shows the extent of government power to exercise control and monopoly on legitimate violence throughout the territory, ensure political decision-making and provide minimal public goods and services and interact as a full member of the international community.

### DISCUSSION ON WEALTH AND ECONOMIC SECURITY OF RESOURCE RENT ECONOMIES

We proceed from the assumption that the political security of a rent resource economy with an authoritarian regime is connected with economic security as a condition for

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<sup>1</sup> The ideas of a long and short planning horizon go back to the work of M. Olson about the “roving and stationary bandit” (see Olson, 1993). In this study, the short and long planning horizon is the probability of loss or preservation of power. In the first case, the political leader will try to extract the rent as much as possible in his own interests, in the second case – a stable ruling allows to pursue the economic policy aimed at the well-being of citizens, which will subsequently strengthen his position.

obtaining a stable income to maintain a public contract (standard of living, provision of public goods), since the price for resources is not stable and depends on the world market. The question is, does the economic security of a resource-dependent state appear to be always unstable? Numerous studies on the effect of resource dependence on economic development show that there is no single position on this issue:

(1) *Wealth of resources does not promote economic development.* The case of Holland at the turn of 1960 served as the backbone of this argument. After discovering a large natural gas field, Slochteren, the state began to increase production and export, the revenue invested into the social sphere “led to an increase in government spending, which strengthened the national currency and contributed to the start of inflation and reduced the competitiveness of the manufacturing sector (industrial unemployment reached 16% by 1980)” (Maltsev, 2008: 233). Such economic downturns due to an abundance of resources became known as “Dutch disease” (see Ellman, 1981). However, despite the decline in economic development, the presence of democratic institutions and the implementation of targeted economic policies helped Holland to overcome the consequences of the “Dutch disease.”

The concept of a “resource curse” by the economist R. Auty supposed the idea of decreased economic development of a country which simultaneously increases the potential for extracting raw materials. However, this thesis makes big assumptions about the negative impact, based on the observation that in the years 1965–1998 the growth of GNP *per capita* in OPEC countries decreased by 1.3%, while in the rest of the developing countries the growth of GNP *per capita* reached about 2.2% (cited in Gylfason, 2001: 848). Auty wasn’t alone in this idea, it was supposed that countries with a strong economic dependence on resource exports would face slow economic and political development. These states spend resource capital faster than they create another form of capital, and thus become poorer overall government efficiency, regardless of income level (Sachs, Warner, 1995: 21).

(2) *The economic effects of resource dependence are positive.* This thesis resulted from some contradictory conditions. The key limitation is the type of political regime: on the one hand, authoritarian rent-based economies have a relative guarantee of stable export revenue; on the other hand, they do not seek to diversify the external market and political pluralism. The modernization policy pursued in the same conditions leads to the fact that economic growth due to energy exports cannot lead to social and cultural changes, which are supposed necessary for the successful establishment of democratic institutions (Ross, 2001: 328; Teorell, 2010: 5; Fish, Wittenberg, 2009: 253). Assuming the absence of political modernization, researcher Kevin Tsui (Tsui, 2011: 111) argues that even if oil hinders the development of democratic institutions, it is not necessarily a curse for the economy, since autocracies can be economically effective if there are institutes for disciplining “weak” political leaders by selectorate (Besley, Kudamatsu, 2008: 45).

(3) *No causality between resource dependence and economic recession.* The followers of this thesis believe that in the long run, there is no causal relationship between exports and large volumes of raw materials production and the negative impact of on economic growth (Alexeev, Conrad, 2009: 596). In addition, the analysis showed that resource abundance does not adversely affect institutionalization, it simply does not improve it,

and otherwise there is the influence of some other factors. The hypothesis regarding the dependence of economic growth on energy prices has also not been confirmed. Proponents of this view (Smith, 2004: 234; Kudamatsu, Besley, 2007: 33) have suggested that the economic success of autocracies simply reflects the effects of oil booms.

In the article, we will draw the analysis from the idea that the “Dutch disease,” as a phenomenon of economic recession, can occur in any political regime. It features the rapidly growing extractive industry and the export market, which leads to a large inflow of foreign currency due to high prices, and domestic goods begin to be replaced by imported ones. The consequence of these processes is the de-industrialization of the economy. However, the so-called “paradox of plenty” is not something fatal, which cannot be remedied: regardless of the type of political regime, if the political will is present, the economic consequences of resource dependence in the absence of a diversified economy can be eradicated using targeted economic measures. It is also possible to overcome the assumption of R. Auti, if politics is defined as a decision-making process and political institutions as intermediaries between resource dependence and political-economic outcomes. We believe that the key to these problems lies in the functioning of political institutions as actors of the political decision-making process and the quality of governance.

### **THE IMPLEMENTATION OF “SOCIAL CONTRACT” MATTERS**

In this article, we hypothesize that regarding political security in terms of stateness it is neither the volume of deposits of natural resources that matter, nor the degree of how much the national economy depends on the resources, but how the political elite uses rent maximization to fulfill the “social contract.” The latter is understood as the implementation of political decisions, the provision of a high standard of living and public goods. We assume that the quality of governance, which is expressed as the ability to pursue announced policy, to effectively distribute goods, is a mediating factor between resource dependence and stateness. Similar logic appears in some studies (Ross, 2008: 7; Treisman, 2010: 21; Youngs, 2008: 13; Roll, 2012: 3): the exact figure a nation’s treasury receives from exporting raw materials, does not matter, but what really does matter is how these revenues are managed, redistributed and utilized. there is even a counter-question on posed: what obligations does the authority receive due to the fact that it is able to extract rent? Two theses are put forward: firstly, resource rent economies get a “resource curse” not because of the oil wealth, but as a result of the chosen resource management model; secondly, weak institutions are not unavoidable in rent economies (Luong, Weinthal, 2010: 59–60).

One of the important challenges is a quantitative measurement of the quality of public contract securing in accordance with previously outlined assumptions. It should be noted that the understanding of weak and strong state capacity (Tilly, 2007: 15–20) as the ability to implement the announced policy can be based on the quality of governance. This position has its supporters (Charron, Lapuente, 2011: 455): they use the World Governance Indicators (WGI) with regard to government effectiveness in order to measure state capacity. The World Bank Research Institute describes the concept as

follows: “the traditions and institutions by which authority in a country is exercised.”<sup>2</sup> In this article, we propose to quantify the quality of governance using such WGI indicators as Government Effectiveness and Regulatory Quality.

**CASE-STUDY OF RENT RESOURCE ECONOMIES ON RESOURCE MANAGEMENT STRATEGIES**

In the case-study, we use a sample of three different countries: Venezuela, Saudi Arabia, Nigeria. This research strategy has the aim of revealing the context of each case, which will help us either correct our hypothesis presented or generate a new one. These contexts can demonstrate some certain features of influence between the rent resource economy and the level of stateness.

The sample is formed in accordance with the following criterion (Table 1): Firstly, the selected cases are similar in the production, exploration and export rates, the average value of the natural resources rents, or NRR, (% of GDP) is above 15% over the past 15 years. The data from the World Bank provides aggregate values of oil, gas, coal, minerals, and forests rents. Estimates by the World Bank suggest that rent from non-renewable resources (minerals, fuel), as well as the rent from deforestation, indicate the dissolution of the state’s basic capital (so-called “genuine savings” provides a better picture of GDP growth rates). It is important to emphasize that the threshold of natural resources rent is 15% since it still does not fully reflect oil dependence.<sup>3</sup> Secondly, the sample’s heterogeneity is reflected in the types of authoritarian regimes, the dispersion of FSI values and the form of government. The latter is based on the typology of authoritarian regimes by B. Geddes, which distinguishes the specifics of a political actor in power (see Geddes et al., 2014). Thus, according to that typology, Saudi Arabia is considered a monarchical regime, Nigeria a military regime, Venezuela a military-personal regime.

Table 1

**The sample of cases for the case-study**

		<b>Saudi Arabia</b>	<b>Nigeria</b>	<b>Venezuela</b>
		Theocratic monarchy	Presidential Republic (corporative), military type of authoritarian regime. High level of political instability. 1999–2005 and 2015–2016 recognized as electoral democracy	Presidential Republic (military-personalist regime)
1	2	3	4	5
<b>FSI**</b>	<b>Average value 2014–2018</b>	71.66 (Elevated warning)	101.44 (Very high alert)	81.22 (High warning)

<sup>2</sup> According to World Bank, this includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

<sup>3</sup> The World Bank indicator of NRR does not include many structural elements of GDP. These elements may also contain revenue from extraction wi. For example, such structural elements of GDP as “manufacturing,” “financial activity,” “production and distribution of gas, electricity and water,” “transportation” and so on.

1	2	3	4	5
<b>NRR**</b>	<b>Average value 2000–2016</b>	40.7%	20.5%	16.8%
<b>NRGI**</b>	<b>2017*</b>	36	42	33
	Value realization	23	50	48
	Revenue Management	24	44	34
	Enabling environment	60	31	17
Income taxes	Up to date	Zakat 2.5% on capital assets (for natives)	7–24% (progressive tax)	6–34% (progressive tax)

\* Available data, the index is quite new.

\*\* FSI – Fragile States Index, NRR – Natural Resource Rent, NRGI – Natural Resource Governance Index.

**Source:** *The Fund for Peace, Fragile States Index annual data*, <https://fragilestatesindex.org/excel/> (01.04.2019); *World Bank*, <https://data.worldbank.org/indicator/ny.gdp.totl.rt.zs> (01.04.2019); *Natural Resource Governance Institute*, <https://resourcegovernanceindex.org/data/both/issue?region=global> (15.04.2019).

Within the case study and using the heterogenic sample, we analyze extremely deviating or classical cases in order to obtain corrective information as well as to “get information about the significance of the conditions difference for the process and the outcome” (Flyvberg, 2005: 115).

The case study of the above-mentioned countries is carried out in accordance with the following questions: (1) What are the values of resource dependence, governance and revenue realization indicators? (2) What is the price of the “social contract” (taxation)? (3) How did the state policy change during economic crises which affected the extractive industry as the basis of state budget and GDP? (4) How did the state policy change during the peak values of resource price commodities (for example, during oil booms)?

The time span of case study indicates the periods of fall and rise of oil prices:

a) Periods of high prices (oil shocks):

- 1973–1980, due to the oil embargo during the Yom Kippur War, the price of oil made two big spikes in 1974 and 1980. During this period, the OPEC Arab countries received the maximum income from the sale of oil (the peak was in 1981) (Braginskiy, 2008: 28). In 1978–1980, the Islamic revolution in Iran and the war between Iran and Iraq occurred,
- 1990 – The Gulf War,
- 1999 – cyclical recovery after the 1998 recession. OPEC reduced production, and demand grew,
- 2002–2008 – a long and almost continuous increase in oil prices due to the war in Iraq, cuts in oil production in Mexico, the United Kingdom and Indonesia, rising oil consumption and the depletion of easily extracted reserves in the Gulf countries;

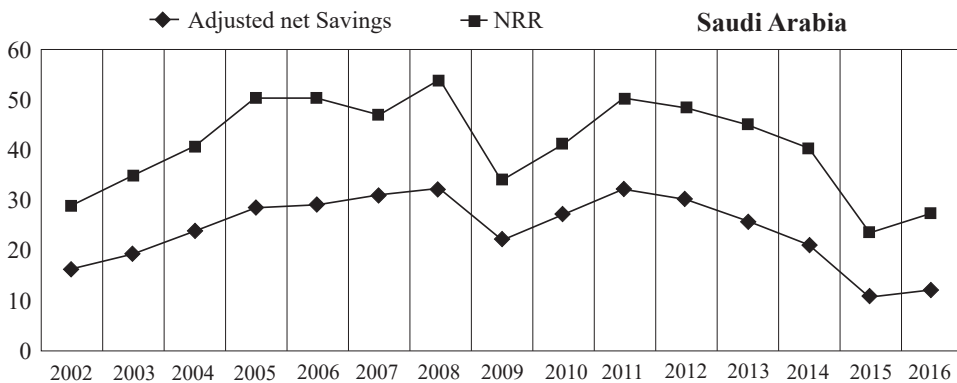
b) Periods of recession and low prices:

- 1980–1989, cyclical crisis, the market was oversaturated with oil and in 1986 there was a collapse in prices,
- 1997–1998, the Asian financial crisis,
- 2008, the beginning of the global financial crisis led to a huge fall in prices.

SAUDI ARABIA

Saudi Arabia is an example of a country which lacks the problem of the “Dutch disease.” However, the country has a very high share of natural resources rents in GDP: according to the World Bank, over the past 15 years, this value has ranged from 45% to 64%. The vast majority of the total exports structure of total relates to natural resources – about 85–90%. At the same time, positive adjusted net savings (or “genuine savings” that include particulate emission damage) indicate an increase in wealth, despite the fact that their value depends on natural resources rents and price fluctuation (Graph 1).

**Graph 1. Natural Resources Rents (% of GDP) and Adjusted net savings of Saudi Arabia (% of GNI)**



Source: The World Bank, annual data, <https://data.worldbank.org/indicator/ny.gdp.totl.rt.zs> (01.03.2019); <https://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS?view=chart> (01.03.2019).

How can one assess the political security of Saudi Arabia in line with these conditions? The state is relatively young, it has existed since the 1930s, and the creation of the state company Saudi Aramco by King Abdul-Aziz ibn Saud after an agreement with then-President of the United States T. Roosevelt became an important foundation element of the country’s further development. The deal terms consisted of oil supplies from Saudi Arabia to the United States in exchange for providing support to both the oil and gas company and the royal family. As an absolute theocratic monarchy, Saudi Arabia is a state where there is no electoral process at all, and all power is inherited by the descendants of the King of Saud through the male line, according to the Basic Law of Saudi Arabia.

The political security of Saudi Arabia as a rent resource economy is ensured by the following factors:

(1) *Co-optation strategy and lack of representation in exchange for public goods.* Oil revenues made it possible to create a bureaucracy that meets the interests of the royal family, to develop the country’s infrastructure and provide social policy. Co-optation is accomplished by buying loyalty in exchange for the provision of tangible and intangible benefits and the redistribution of rent (Magaloni, 2008: 729). In the country,

oil revenues financed the expansion of state bureaucracy, increasing both the number of public institutions and jobs in the public sector.<sup>4</sup> At the same time, the state refused to tax its own citizens<sup>5</sup> (this is a “social contract,” where the absence of taxes leads to the absence of political representation).

(2) *The price of oil may affect the length of the planning horizon.* As in many resource rent economies, the political process is relatively tied to oil price commodities. For example, during the governing of King Faisal (1964–1975) and King Khalid (1975–1982), oil prices were fairly high. The government of Faisal was characterized by the enrichment of the state economy with petrodollars, which made it possible to carry out a number of reforms and develop infrastructure. The policy vector of his predecessor King Saud (1953–1964) was the exact opposite: inappropriate expenditure for his own purposes and an ineffective development program. The Khalid’s rise to power followed a sharp increase in oil prices. However, Khalid continued to follow the tradition of his predecessor and did not allow the inappropriate waste of oil revenues, he introduced budget planning five years ahead, and the first five-year plan during his reign was aimed at developing infrastructure and health care.

The King Fahd (1982–2005) was in power for a considerable amount of time, during his rule several significant measures took place on the oil market – at the end of 1986 oil prices fell sharply, the next spike was expected only in October 1990, but prices weren’t stable – oil prices only really began to rise in the early 2000s. By that time, Fahd, first, openly showed in 1992 his negative attitude to the proposal to reform the political system (liberalization in terms of expanding political representation, as well as the legal regulation of oil revenues); secondly, he was suspected of large misapplications of funds;<sup>6</sup> thirdly, such wastefulness led to infrastructure stagnation, since the funds were initially assigned in the construction of educational institutions and the development of the road system; fourthly, the main emphasis was laid on the development of the hydrocarbon industry against other sectors of economic activity, which can be explained by the desire to extract the maximum natural resource rents under the conditions of average oil prices.

(3) *Disciplining the poor performance of political elite and rent control.* Some members of the royal family were suspected of funds misuse (for private profit or to implement financially ineffective projects to receive political support), but in some cases the royal family has taken steps to prevent misspending of oil revenues. The thesis that autocracies can be economically effective if there are institutions of “selectorate” to discipline “weak” political leaders and their poor performance (Besley, Kudamatsu, 2008: 45) takes the form of disciplining within the political elite itself in Saudi Arabia. For example, during the governing of Saud (1953–1964), the Royal

<sup>4</sup> The countries, which prosper because of high demand on rent resources, like oil, rulers usually defend their monopoly by directing a large part of revenue to reproduce the boundaries between their own traditional institutions and the rest of them (Tilly, 2007: 116).

<sup>5</sup> In the country there is no value added tax or sales tax. The exception is the tax called “Zakat” – this is an annual tax of 2.5% of net income, it is paid by both individuals and legal entities.

<sup>6</sup> For example, one of the most expensive deals of the century (about \$90 billion, part of which was paid by supplying barrels of oil) for the supply of arms from the United Kingdom to Saudi Arabia, which was considered a corruption offense in the early 2000s.



family was concerned that his policies would have disastrous consequences for the economy, so the future King Faisal (1964–1975) was appointed by senior members of the royal family as prime minister in 1958. The goal was to pursue a policy of financial foresight, reducing costs. The Faisal governance has been characterized as the “conscious,” “thrifty,” “prosperous” period for the country.

Another interesting case occurred in November 2017, when 11 members of the royal family (four of them were current ministers) were arrested, after the king issued a decree on countering corruption, where it was noted that some members of the ruling elite put their interests above public. According to the five provisions of this decree, the state formed a supreme committee chaired by the Crown Prince to counter corruption, prevent bribery crimes, detain and arrest the suspects.<sup>7</sup> The mechanisms of discipline to prevent poor performance reflect relatively good results of governance effectiveness in relation to government spending (almost on the same level with Canada, Norway and Netherlands) and use public funds on designated purposes (on the same level with USA) (Table 2).

Table 2

**Selected indicators of public policy effectiveness in Saudi Arabia**

	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017
Wastefulness of government spending (1 – extremely inefficient, 7 – extremely efficient in providing goods and services)	4.36	4.73	4.83	5.24	5.52	5.08	4.74	4.74	4.7	4.7
Diversion of public funds (1 – very commonly occurs, 7 – never occurs)	4.11	4.56	4.83	5.12	5.12	4.89	4.79	5.18	5.2	5.4

Source: *The World Economic Forum, The Global Competitiveness Report, annually*, <https://www.weforum.org/reports> (01.04.2019).

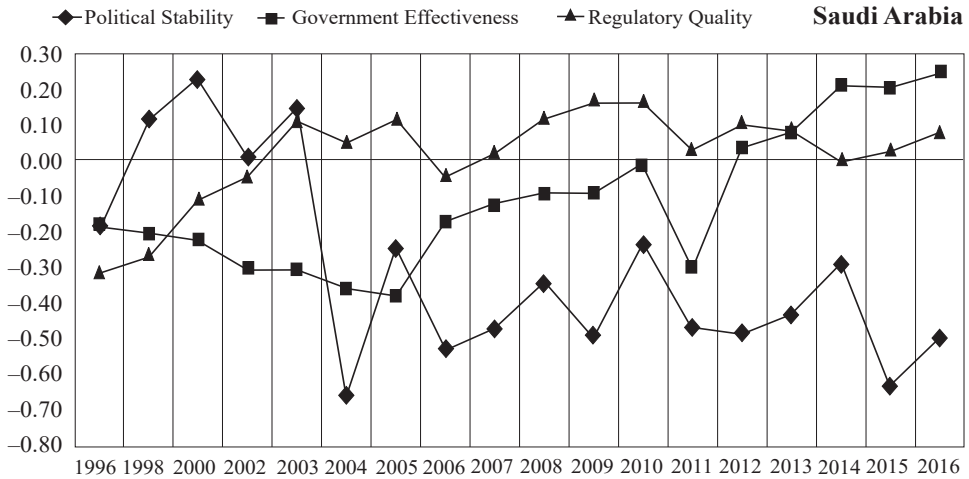
(4) *Autocracy with relatively high state capacity.* In relation to WGI indicators, Saudi Arabia is one of the few examples of an authoritarian regime with a relatively high state-capacity, which represents the government’s ability to implement announced policies and possesses the value from –0.17 to 0.24 points over the past 10 years. According to World Bank the “regulatory quality” indicator, which is responsible for the perception of the government’s ability to formulate and implement rational policies, takes on values from –0.1 to 0.18 points over the past 10 years (Graph 2).

According to the analysis of the results of the rule of some autocrats, it is possible to say that the economic policy of the state has shifted from the redistribution model of income to the redistribution model of oil revenues in the form of real estate, industry, agriculture and social services subsidies. The oil booms confirmed the status of the rentier economy in Saudi Arabia, and also strengthened the view of Saudi Arabia

<sup>7</sup> Later, the details of the accusation became known – in general, members of the royal family were accused of transferring state contracts to their own companies, using their official position in the dealing process, and wasting funds during the construction of infrastructure facilities.

as a state whose authoritarian rule was, is and will be based mainly on oil revenues (Martorell, 2012: 49).

**Graph 2. WGI data on Political Stability, Government Effectiveness, Regulatory Quality in Saudi Arabia (1996–2016)**



Source: The World Bank, The Worldwide Governance Indicators (WGI) project, <https://info.worldbank.org/governance/wgi/#home> (10.01.2019).

### NIGERIA

Nigeria is extremely rich in natural resources: the state is engaged in oil extraction and mining. Between 1990 and 2005, natural resource rents fluctuated around 45% of GDP, only in recent years, the share fell to 20% of GDP. The political regime in Nigeria is interesting for its volatility: Nigeria experienced 8 coups between the years 1960 and 1993. According to Freedom House, in years 1989–1998 and 2006–2014, Nigeria was considered as autocracy, while in years 1999–2005 and 2015–2016 it was related to electoral democracies. The political security of Nigeria as a rent resource economy has the following features:

(1) *The length of the planning horizon during the price fluctuations depends on political will, if discipline institutions don't work.* Shehu Shagari (1979–1983) began his rule at the end of the oil shock in the 80s. The first two years of governing were marked by the pursuit of a long planning horizon policy – petrodollars were spent on the development of the housing sector, industry, transport and agriculture. The fall of oil prices in 1981 affected the economic situation in the country; the Nigerian government was accused of corruption and the ineffectiveness of the economic stabilization program, despite the assistance of the World Bank and its anti-crisis measures. Ibrahim Babangida (1985–1993), who came to power after two state coups, and in the midst of the crisis tried to improve the quality of resource management. In doing so, as quoted in Time magazine in 1986, attempts were made to conduct “an open administration

that was responsive to the yearnings and aspirations of all the people.” He was the only ruler who held a referendum on the implementation of austerity measures by the World Bank after a sharp fall of oil prices in the middle of 1985 and early 1986. However, despite the slight economic growth from these measures, a sharp reduction in public services caused a wave of unrest and violence that forced Babangida to return to measures of inflationary economic policy.

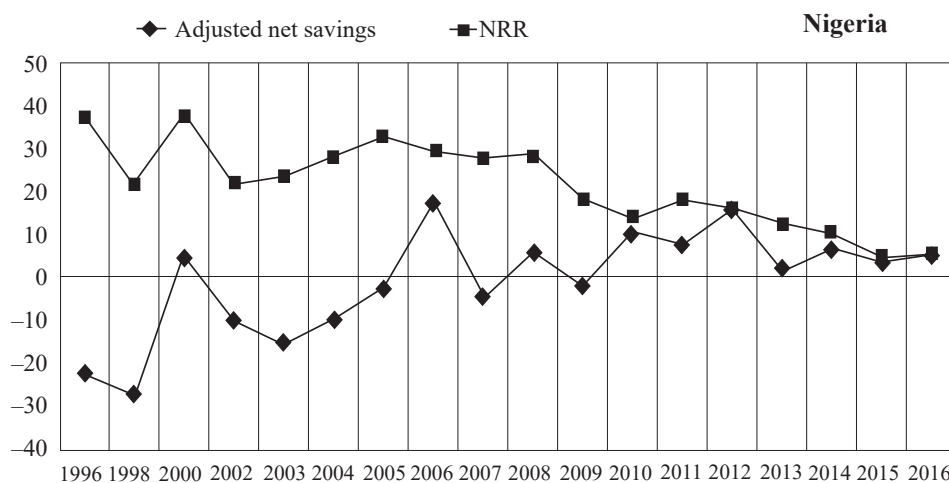
The autocrat S. Abachi (1993–1998) also faced low energy prices. As a result of his rule, the scale of corruption increased and economically disastrous projects emerged. Abachi acted in his own interests, an investigation a few years after the end of his governance revealed the amount stolen to be 4 billion USD. After Abachi’s death in 1999, O. Obasanjo (1999–2007) came to power, and at that time prices rose sharply, as a result the political course of the country also changed. The success of many reforms and the establishment of democratic principles for the functioning of institutions was contributed to by an influx of a large amount of petrodollars since early 2000s, as well as the political will to start democratic reforms.

However, despite the growth in GDP due to high oil prices President Obasanjo (1999–2007) failed to tackle the problem of corruption. It is worth noting that in Nigeria, the Sovereign Wealth Fund was established recently – in 2011, after the exhaustion of the Excess Crude Account stabilization fund which had been functioning since 2004. The stabilization fund had aimed to protect its deposits from presidential pressure, with a possible short planning horizon due to the frequent changes of power. However, the aforementioned President O. Obasanjo, failed to maintain the principles of the long-term investment development: he carried out the initiatives, which included the amount of \$8 billion for independent power plants and \$10 billion to compensate for too optimistic forecasts of budget revenues. Obasanjo was accused of corruption and money pullbacks he carried out during his second presidency. His requests to withdraw money from the fund increased towards the end of the electoral circle in 2007, as he proceeded from a short planning horizon before the upcoming elections. As in many rent-based economies, Nigeria invested a significant amount of funds into failed or unsuccessful infrastructure projects in order to achieve personal political goals. An example is the steel factory in Ajaokuta, which was, in fact, never launched.

(2) *Ineffective natural resource management contributes to the poverty.* Regardless of the oil price, Nigeria did not succeed in significantly changing the state of economic development, even while receiving super-profits from oil exports. There is still a problem of a large gap between rich and poor, a low level of GDP *per capita* compared with many Central African countries, ineffective social policy and undeveloped infrastructure. The negative values of “genuine savings” (Graph 3) indicate an “anti-sustainable” development of the economy. All this is reflected in the indicators of government effectiveness as well.

The WGI indicators for government effectiveness and regulation quality are assessed as below average: in the years 1990–2016, the values do not go beyond the range of –0.5 to –1.5 points. Over the past 4 years, the World Economic Forum estimates the efficiency of spending funds from the budget as below average, and public funds are commonly not used for proper purposes (Table 3).

**Graph 3. Natural Resources Rents (% of GDP) and Adjusted net savings of Nigeria (% of GNI)**



**Source:** *The World Bank, annual data*, <https://data.worldbank.org/indicator/ny.gdp.totl.rt.zs> (01.03.2019); <https://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS?view=chart> (01.03.2019).

Table 3

**Selected indicators of public policy effectiveness in Nigeria**

	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017
Wastefulness of government spending (1 – extremely inefficient, 7 – extremely efficient in providing goods and services)	2.7	2.56	2.32	2.23	2.56	2.38	2.17	2.17	2.2	2.2
Diversion of public funds (1 – very commonly occurs, 7 – never occurs)	2.39	2.43	2.33	2.02	2.16	1.86	1.75	2.13	2.1	2.2

**Source:** *The World Economic Forum, The Global Competitiveness Report, annually*, <https://www.weforum.org/reports> (01.04.2019).

(3) *Internal political situation triggers the level of state failure.* The frequent changes of the political regime occurred because of the inability of political leaders to pursue a long-term policy, due to the political situation including: the constant struggle for power, military uprisings, incessant interethnic conflicts and separatist tendencies in oil-producing areas.

(4) *Principles of transparency and accountability ate in their first stages.* Analyzing the processes of oil revenues distribution, in general, it is worth noting the obvious dichotomy between the legal regulation of this and its actual implementation. Nevertheless, one can stress that information access to production and exploration can be considered essential, but the disclosing practice of income and regulation remains insufficiently open.

## VENEZUELA

According to Freedom House, Venezuela satisfied the conditions of electoral democracy in years 1989–2007, but has been an autocracy since 2008. According to the World Bank, Venezuela as a resource rent economy exhibits a large share of natural rents in the GDP structure, ranging from 18 to 30%. However, at the same time, the share of oil and gas in total exports over the past 15 years reached about 85–96%. The political security of Venezuela as a rent resource economy has the following features:

(1) *Resource rent is a source of social policy, but sometimes it weakens the political representation.* Venezuela is an example of a state that used oil revenues both for maintenance of the ruling leader's power and social development. For example, Juan Vicente Gomez (three-time presidency from 1908 to 1935), made the oil industry a central part of the economy and a source of increased state capacity, but also to strengthen his political positions. The enrichment of the budget with petrodollars allowed the avoidance of seeking the people's consensus (Tilly, 2007: 101). Noteworthy is the example of President Eleazar López Contreras (1935–1941), who used natural rents to finance social programs, which made it possible to receive a positive response from the masses and increase support.

It is worth mentioning that in 1943 authorities imposed an increased tax on the income of international oil companies. This, in turn, dramatically increased the government's dependence on the oil sector and reduced the role of electorate's taxation. The lack of need to account for a low tax revenues from the electorate led to the development of unhealthy democracy with authoritarian tendencies (Karl, 1987: 87).

The oil shock in 1973 caused a significant increase in government revenues, which led to a sharp increase in social costs. President Carlos Pérez (1974–1979) launched the Great Venezuela megaproject – this period was called “Saudi Venezuela” (Venezuela Saudita). Pérez created a subsidy system; the plan was not only to increase state expansion in the labor market – more jobs and higher wages – but also to diversify exports through government intervention in the non-oil sectors of the economy (Zotin, 2017: 9).

After Hugo Chávez (1999–2013) came to power, the situation changed radically, the model of representative democracy was replaced by socialism. The new economic program of Venezuela was so-called “Bolivarian socialism of the 21st century.” The combination of populism and resource wealth due to increased oil prices led to large state expansion, an increase in authoritarian tendencies<sup>8</sup> and a subsequent economic decline. Hugo Chavez showed himself to be an ardent populist in his political statements, and in the last years of his rule oil revenues were used to strengthen his own power. This argument is drawn from relatively low values of World Bank indicators on government effectiveness and regulating quality, the practice of economically inefficient projects, and the suppression of the opposition. At the same time, the end of each electoral cycle was accompanied by generous social programs to support needy

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<sup>8</sup> During his rule, the regime was considered an electoral democracy until 2007. In 2007, the President submitted draft amendments of the Constitution to the National Assembly: the main constitutional reform was the opportunity to run for the presidency an unlimited number of times. The amendment was approved by the national referendum only in 2009.

households. However, Chavez failed to tackle inequality and unemployment, since the rent-based economy as a phenomenon creates few jobs (Maas, 2010).

(2) *Mismanagement of natural resources* and the lack of a diversified economy *contributes to the poverty* in the absence of economic security. *The lack of disciplining mechanisms* leads the autocrat to pursue a policy of strengthening his own power in prejudice of reforms. The turning point happened at the beginning of the financial crisis in the early 80s, when world oil prices collapsed, and OPEC countries initiated a reduction in oil extraction. As a result, Venezuela experienced a lack of funds in currency reserves and announced a tough economic regime (Zotin, 2017: 11). In the conditions of a democratic society, this led to discontent and the demand for increased social spending. However, by 1983 it became clear that the state was unable to finance its social programs and the so-called “Saudi Venezuela” became outdated.

Nowadays, Venezuela is experiencing a severe food crisis and unprecedented inflation – 4310% in 2017. In response President Nicolas Maduro increased gasoline prices and salaries, as well as pursuing measures of currency devaluation. The initial lack of principles of accountability and openness in the framework of resources management led to the inability of the country’s economic development to cope with conditions associated with falling oil prices – reserve funds proved to be insufficient.

The mismanagement of the Maduro administration, which was gripped by long-time nepotism and corruption in the political and military elite, only aggravated the crisis (Blyth, 2018: 15). In the conditions of a deep political and economic crisis, the sitting president performs in accordance with a short time planning horizon and cares not about reforming the economy, but about strengthening his political positions. In November 2017, Maduro appointed a loyal military general (who had no experience in the oil industry) to head the state-owned oil company PdVSA and the Ministry of Oil. In addition, with the help of a fictitious referendum, he deprived the authority of the opposition National Assembly and established a new Constituent Assembly with loyalists. The lack of disciplining mechanisms for an authoritarian ruler leads to even greater political and economic destabilization. It is worth noting that only once has the impeachment of the head of state occurred in 1993, after Venezuela’s prosecutor Ramón Escobar Salom accused the then President of the country, Carlos Perez, of embezzling public funds and appropriating 250 mln bolivars from funds he controlled.

(3) *Inefficient use of funds for infrastructure projects doomed to failure in order to ensure loyalty*. What is the burden of oil dependence of Venezuela? As William Tompson writes in his article, “venezualization” is a mixture of slowed down reforms, populist spending and the growing nationalization of the energy industry (Tompson, 2008: 152). The experience of the reserve fund also did not bypass Venezuela: the institute was created in the 70s to accumulate super-profits during high oil prices, while being controlled and managed by the President. However, the use of funds for infrastructure projects (for example, a bankrupt large metallurgical plant) and social policy (for example, education of personnel abroad) has not always been successful. Such investments suggest a populist policy without proper calculations of cost effectiveness.

Indicators of the effectiveness and legality of the use of public funds also leave much to be desired – the data in Table 4 covers last years of H. Chávez’s rule and the beginning of the Nicolas Maduro’s presidency. Over the past 6 years, the wastefulness

of government spending is estimated to be an average of 1.35 points, which reflects the inefficiency of budget expenditures. At the same time, there is often misuse of public funds – an average value is 1.34 points over the past 6 years.

Table 3

**Selected indicators of public policy effectiveness in Venezuela**

	2011– 2012	2012– 2013	2013– 2014	2014– 2015	2015– 2016	2016– 2017
Wastefulness of government spending (1 – extremely inefficient, 7 – extremely efficient in providing goods and services)	1.86	1.50	1.18	1.18	1.2	1.2
Diversion of public funds (1 – very commonly occurs, 7 – never occurs)	1.65	1.48	1.32	1.22	1.2	1.2

**Source:** *The World Economic Forum, The Global Competitiveness Report, annually*, <https://www.weforum.org/reports> (01.04.2019).

Regarding the quality of governance state capacity, it is worth noting that, since the early 2000's, there has been a sharp drop of the WGI indicator of regulatory quality – in 1996 it was –0.18 points (a scale from –2.5 to 2.5 points), in 2005 it reached –1.13 points, and in 2016 it received –2 points. The government's performance indicator also fell from –0.72 points in 1996 to –1.29 points in 2016.

### **TRIGGERS INFLUENCING LENGTH OF THE PLANNING HORIZON STRATEGIES AND FURTHER CHALLENGES**

Based on the analysis of the sample, it is possible to affirm that the resource dependence of the economy negatively affects the political security not so much in the absence of economic growth (“Dutch disease” itself can be cured), as due to the struggle of political elites for the redistribution of resources in terms of guaranteed income, absence of accountability and transparency mechanisms, as well as weak representation system.

For example, one can observe, there is either inappropriate use of national wealth funds or stabilization funds for unprofitable, obviously unsuccessful infrastructure projects (the so-called “white elephants” model), or the procedure for using funds on deposits is very simplified, non-transparent, vulnerable to inappropriate withdrawal. The above-mentioned “white elephants” model is a regime built on the foundation of a rent-based economy, but having low state capacity, the autocrat uses income from natural resources not to improve the economy or the welfare of citizens, but to buy political loyalty and cooptation (Robinson, Torvik, 2004: 198–203).

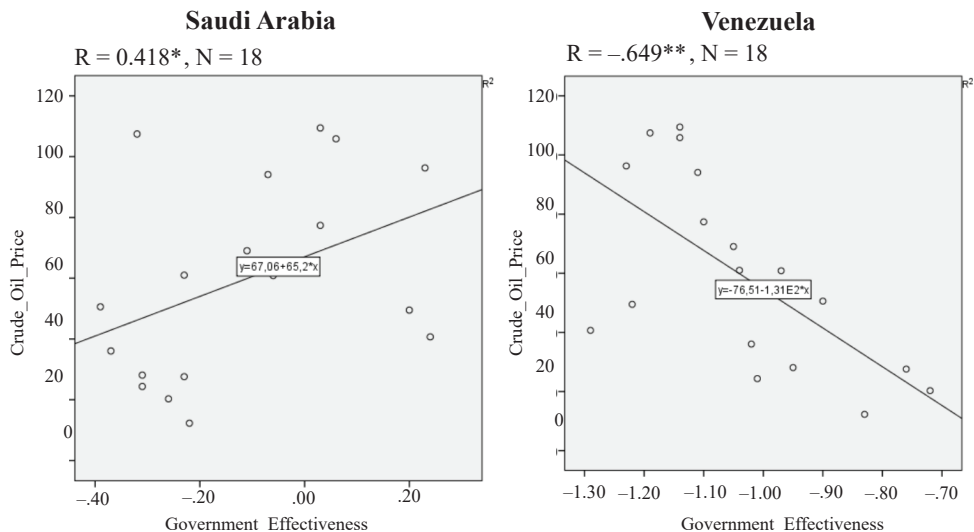
Some authoritarian regimes demonstrate the policy of a rentier, when a low tax rate is set in order to mitigate democratic pressure and the requirements of representation (the principle of “No taxation – no representation”). There is also the problem of price fluctuations: high oil prices may contribute to the autocrat's following of a long planning horizon – under these conditions one can observe high indicators of the quality of governance, expressed in the ability to implement the stated policy and spend funds

effectively. This contributes to greater political security in terms of the ability to fulfill the so-called “social contract.” However, in the context of volatility on the global markets the political security of authoritarian regimes is particularly threatened, low prices often contribute to a short planning horizon policy, in such conditions, the level of governance quality falls, corruption and cases of inappropriate uses of reserve funds increase. Nevertheless, it would be reckless to designate these outlines as absolute laws, therefore, based on the analysis, it is possible to identify the triggers, which are conducive for pursuing a particular political course.

One can outline the following factors contributing to the choice of long-term development strategy in terms of the rent-based economy:

- a) High market prices for rent-forming resource;
- b) Disciplinary mechanisms (Besley, Kudamatsu, 2008: 45) by selectorate (Mesquita et al, 2002: 16, 88) in relation to autocrats and government officials; control over corruption;
- c) Political will to diversify the economy;
- d) Co-optation by expanding bureaucracy apparatus, state institutions and the number of jobs financed from the state budget;
- e) Absence of internal political conflicts and threats of foreign intervention;
- f) Setting and maintaining a low tax rate;
- g) Enabling environment as a basis for quality of resource management (according to the Resource Governance Index by NRG, including all WGI indicators and data openness).

**Graph 4. Correlation analysis for Saudi Arabia and Venezuela**



\* Abscissa axis – Government effectiveness WGI, ordinate axis – Average annual crude oil price in U.S. dollars per barrel.

**Source:** Own estimations on the basis of *The Worldwide Governance Indicators (WGI) project* by The World Bank and Statista 2019, <https://www.statista.com/statistics/262858/change-in-opeac-crude-oil-prices-since-1960/> (10.04.2019).



The above factors conducive to the choice of a long planning horizon strategy in a rent-based economy, the following factors contribute to a short planning horizon strategy:

- a) Low market prices for rent-forming resource;
- b) The end of the electoral cycle;
- c) The revenue fund is controlled and managed by the head of state;
- d) Premature loss of power;
- e) An undiversified economy, with uncompetitive non-oil sectors;
- f) Charismatic style of government based on populism;
- g) The buying of loyalty in exchange for the material and immaterial benefits and the redistribution of rent;

Nevertheless, there are some issues that require additional study. Firstly, in closed authoritarian systems, it is difficult to operationalize and predict procedural factors, in particular political will. The cases of Nigeria and Venezuela show that there are cases where in conditions of the aforementioned triggers of the short planning horizon an autocrat is trying to carry out a long-term planning policy. In this case, the political will is something that requires further elaboration with other cases. Secondly, the above triggers should not be taken separately as a compulsory condition of a particular strategy. For example, the trigger of high oil prices only does not necessarily lead to an improvement in the quality of public services. Thus, the correlation analysis (Graph 4), which allows to show the strength of the statistical interdependence, showed that there is a moderate positive relationship between oil prices and the government effectiveness index in Saudi Arabia, but in Venezuela this relationship is not only relatively strong, but negative! This shows that it is not possible to draw one common reasoning for all authoritarian states with rent-based economies.

Responding to our puzzle question, whether political security in an authoritarian system with a rent resource economy results from the implementation of a “public contract” and a high resource price, it can be said that it is achieved through the co-existence of political will regarding the choice of strategy and triggers, conducive to specifying the length of the planning horizon. Our analysis showed that the quality of governance, expressed in the ability to secure a “social contract” (pursue stated policies, effectively allocate benefits), is a factor mediating the influence of resource dependence and political security in terms of stateness.

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### ABSTRACT

Most researchers believe that states which are rich in natural resources are more able to maintain political stability in comparison to countries without such an access to exceptional profits. However, some rent resource autocracies are unanimously considered fragile, and their ability to extract maximum rents does not always contribute to political and economic security during price fluctuations. Based on the idea that the state’s ability to extract resources imposes on it certain obligations, the research question touches upon the quality of governance as a supposed core factor, which mediates the resource dependence and political security in terms of stateness and the ability to fulfil the “social contract.” The latter is described as implementation of political decisions, provision of public goods and services. However, the quality of governance is substantially different in various autocratic systems. Using case-study and descriptive statistics, the authors try to reveal the context and ascertain which factors trigger the horizon length of autocrats’ political strategies during rising and falling resource prices. The authors affirm that resource dependence negatively affects political security less due to an absence of economic growth during price breaks, and more due to the struggle of political elites for the redistribution of resources, absence of disciplinary mechanisms, weak representation and accountability systems, and poor enabling environments as a basis for quality of resource management. The authors conclude that political security in autocratic resource economies is achieved through the coexistence of political will and triggers, conducive to specifying the length of the planning horizon.

**Keywords:** political security, resource rent economies, resource dependence, natural resource rents, authoritarian regime, quality of government, social contract, case study, political disciplining, co-optation, resource management, price fluctuations

### BEZPIECZEŃSTWO POLITYCZNE W SYSTEMACH AUTORYTARNYCH Z GOSPODARKĄ OPARTĄ NA RENCIE SUROWCOWEJ: WYNIK “UMOWY SPOŁECZNEJ” I WYSOKICH CEN SUROWCÓW?

#### STRESZCZENIE

Większość badaczy uważa, że państwa bogate w zasoby naturalne mają większą zdolność utrzymywania stabilności politycznej w porównaniu do krajów bez takiego dostępu do wyjątkowych

zysków. Jednak niektóre reżimy autokratyczne oparte na rencie surowcowej są jednogłośnie uważane za niestabilne, a ich zdolność do uzyskiwania maksymalnych korzyści nie zawsze przyczynia się do bezpieczeństwa politycznego i gospodarczego podczas wahań cen. Opierając się na założeniu, że zdolność państwa do wydobywania zasobów nakłada na nie pewne obowiązki, zadano pytanie badawcze dotyczące jakości rządzenia jako domniemanego kluczowego czynnika pomiędzy zależnością od zasobów i bezpieczeństwem politycznym państwa a zdolnością do wypełniania przez nie "umowy społecznej." Tę ostatnią określa się jako realizację decyzji politycznych oraz dostarczanie dóbr publicznych i usług. Jednak jakość rządzenia jest zasadniczo różna w różnych systemach autokratycznych. Wykorzystując studium przypadku i statystyki opisowe, autorzy starają się ukazać kontekst i ustalić, które czynniki wpływają na określenie horyzontu strategii politycznych stosowanych przez autokratyczną władzę podczas wzrostu i spadku cen zasobów. Autorzy potwierdzają, że zależność od zasobów negatywnie wpływa na bezpieczeństwo polityczne w mniejszym stopniu z powodu braku wzrostu gospodarczego podczas obniżek cen, a bardziej ze względu na walkę elit politycznych o redystrybucję zasobów, brak mechanizmów dyscyplinujących, słabą reprezentację i systemy odpowiedzialności oraz brak sprzyjających warunków będących podstawą dobrego zarządzania zasobami. Autorzy dochodzą do wniosku, że bezpieczeństwo polityczne w autokratycznych gospodarkach zasobowych osiąga się w drodze współlistnienia woli politycznej i czynników wpływających na określenie długości horyzontu planowania.

**Słowa kluczowe:** bezpieczeństwo polityczne, gospodarka oparta na rencie surowcowej, zależność surowcowa, renta surowcowa, reżim autorytarny, jakość rządzenia, umowa społeczna, studium przypadku, dyscyplinowanie polityczne, kooptacja, zarządzanie zasobami, wahania cen