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DEMOCRACY OVER A BARREL: OIL, REGIME CHANGE AND WAR

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I want to thank the UC Irvine Center for Democracy for the honor of speaking in the memory of Professor Harry Eckstein.ⁱ I am especially pleased to speak in his honor because we have a common link. In one of the little known stories of the Nazi era, 1,200 unaccompanied Jewish children were brought to the United States – the result of an intense effort by private Jewish groups who fought discriminatory and exclusionary U.S. immigration policies to save young Jews from the Holocaust. These were the only unaccompanied Jewish children legally admitted into the United States. Harry Eckstein was one of these lucky refugees. Without the efforts of the activists who saved him, the extraordinary scholarship and creativity of his life would have been lost – like that of millions of others who were not as fortunate.

Fearful that knowledge of the legal entry of these children might inflame anti-Semitic and nativist demagogues in the United States, the human rights activists who organized their rescue kept this operation secret. The story of what is now called the “One Thousand Children” (OTC) is not even mentioned in the Holocaust Museum – and it would be completely unknown except for the efforts of the survivors to tell their stories.ⁱⁱ

Yet I grew up believing that everyone knew about the “One Thousand” because Cecilia Razovsky, one of the most prominent figures in organizing the liberation of these children, had been born in my home city of St. Louis. At the end of the war, she enlisted the aid of my father, then a struggling young doctor, to provide free medical care for some of her charges. Thus, rescued people in St. Louis, people like Harry Eckstein, became part of the fabric of our lives. Not surprisingly, the conditions that produce the persecution of children and their families subsequently became central to my own intellectual concerns.

My subject tonight, “Oil, Regime Change and War,” is a difficult one because we are in a moment of debating a war in a major oil-exporting country whose stated purpose, at least for some policymakers, is to spread democracy. While I will not specifically address today the costs of the war in Iraq, I would be more than remiss after this introduction if I failed to say that the deaths of tens of thousands and the displacement of approximately four million Iraqis is creating a new crisis of endangered and unaccompanied children – children who, like Professor Eckstein, have the potential to become the intellectuals, artists, writers, and leaders of the future. They must be helped.

Can oil dependent countries become democratic?

Several years ago, my colleague Larry Diamond posed a question at this same forum: Can *every* country become a democracy?ⁱⁱⁱ Today, I want to develop this theme by considering the question: Will autocracies dependent on the export of oil become democratic? To some, the answer seems evident. “The trend is clear,” President Bush said in March 2005. “In the Middle East and throughout the world, freedom is on the march.” Unfortunately, at least in the near term, the opposite is true. Not only is the worldwide spread of democracy stagnating in general, but a number of countries that had once demonstrated some progress are seriously backsliding. By my calculations, about a third of these backsliders are oil-exporters, perhaps most notably Russia. And not a single oil-exporter currently classified by Freedom House as “not free” or “partly free” shows signs of changing its status to democracy. This does not mean that oil-exporting countries cannot become democratic (witness, for example, Norway or Trinidad-Tobago), but it does indicate that oil dependence may pose special problems for democratization.

Iraq and the Devil’s Excrement

“Oil is the devil’s excrement,” Juan Pablo Perez Alfonzo, the founder of the Organization of Petroleum Exporting Countries (OPEC), remarked to me almost thirty years ago in Caracas, Venezuela. “It brings trouble.” While oil is actually just a black viscous material, President Bush would have been wise to listen to the warnings of this petroleum sage before deciding to invade Iraq, topple a dictator and attempt to promote democracy in a country dependent on oil for its livelihood. Iraq sits on top of the third largest proven oil reserves in the world; it may possess up to a quarter of total world reserves; and it has the potential to become the world’s largest oil exporter. Iraqi oil, unusually “sweet” and inexpensive to get out of the ground, promises some of the greatest profit margins in the world’s most profitable industry. While this reality was certainly one of the major reasons why war in Iraq seemed both feasible and attractive despite repeated administration denials,^{iv} it is also one of the major reasons that democratization, at least in the short to medium term, was a highly unlikely goal.

Most policymakers seem to think that countries lucky enough to have “black gold” can base their development (or their reconstruction^v) on the resource that forms the backbone of the industrialized world. But the lived experience of almost all late-developing oil-exporting countries to date tells us differently. What I have elsewhere called “the paradox of plenty”^{vi} and economists call the “resource curse” is the fact that rich oil countries (countries whose economies and states depend almost entirely on the export of petroleum -- and note that I said export) have exceptionally poor development outcomes given their per capita incomes. They also suffer from exceptionally long dictatorships and include exceptionally few democracies (and often low quality ones at that). If this were not a dismal enough record, oil-exporting countries are also especially vulnerable to ethnic and secessionist civil war. In sum, countries that depend solely on oil for their livelihood are among the most economically troubled, the most authoritarian, and the most conflict-ridden in the world.

Iraq is one of the world's most oil dependent countries, and it is no exception. Thus, while Americans may be stunned by the devastating violence in Iraq today – with Sunnis killing Shi'ites, Shi'ites killing Sunnis, Kurds wanting to form their own country, and with almost all Iraqis calling for a withdrawal of U.S. troops^{vii} – the risk of these outcomes was very high from the very beginning. This is not mere hindsight or what the Italians call it “dietrologia,” the “science” of looking backwards). Social science findings which were known to the administration (not to mention common sense) predict that when different ethnic, religious, class or tribal groups are sitting atop the world's most profitable resource, intense conflict over the division of this wealth is likely to result. For example, it does not take a rocket scientist to understand that the Kurds – who are a persecuted minority with aspirations for their own homeland, who are territorially concentrated in one part of the country, and who have huge oil deposits under their feet -- are likely to attempt to draw their own borders in order to keep these resources for themselves and out of the hands of the Arabs who committed genocide against them. Nor does it take acute political savvy to understand that Shi'ites, Sunnis and Kurds will find it especially difficult to reach agreements over the production and revenue sharing of their sole valuable resource – difficulty that is one of the central obstacles to peace. The Bush administration continues to refute the notion that the oil was the central rationale for going to war in Iraq, yet ironically, any prospective peace will end up being about oil – about who benefits and loses from the unimaginable wealth in this land. The future of Iraq rests on this issue. As I examine the relationships between oil, democracy and war, I hope you will see why this is the case.

Oil, the Middle East and the Democratic Exception

Oil and democracy do not easily mix, but oil and war do. Let's look at the first side of this equation: the relationship between oil and democracy. Oil exploitation and highly-centralized rule to go hand in hand, mutually reinforcing each other, and this 'vicious' cycle both delays and deters democracy. Oil companies have historically preferred to conduct their business with one strongman who could guarantee that their sunken assets would receive some protection, and rulers, in turn, have been able to use oil rents as a central mechanism for concentrating their power. Thus, high levels of dependence on oil rents have always tended to reinforce the regime in power, especially the executive. This means that authoritarian rule in oil-exporting countries has tended to last an unusually long period of time. Think, for example, of the surprising durability of Iraq's Saddam Hussein, Indonesia's Suharto, Nigeria's military rule, Iran's Shah and later its theocracy, and especially the Saudi Royal Family, This is not to say that regimes dependent on oil cannot occasionally become democratic, as Venezuela demonstrated in 1958. But where autocracies are being formed or already in place, oil rents, (and by this I mean the enormous excess profits derived from petroleum extraction),^{viii} tend to depress the likelihood of regime transition to democracy. In the rare cases where some type of electoral democracy is actually established, reliance on oil rents as the chief source of the state's livelihood is likely to produce defective democracies like Venezuela's restricted *partiocracy*.

These findings, which have been confirmed by numerous statistical and case studies,^{ix} pose a partial explanation for why the Middle East has not been caught up in the global wave of democratization that has swept almost all other regions of the world. While the regions of Latin America, Southern and Eastern Europe, Africa, and Asia have many competitive electoral regimes, Middle Eastern countries stand apart (with the notable exception of two non-oil countries, Turkey and Lebanon). This failure to democratize challenges one of the few truisms in political science: the modernization argument of the late Seymour Martin Lipset that the level of economic development is a powerful predictor of democracy – an argument that should hold across regions.^x In this view, Middle Eastern oil-exporters blessed with high per capita income ought to be democratizing.

Instead, I want to posit that democracy fails to flourish in this region precisely because these countries are so rich -- rich in oil. This would explain why, unlike other regions of the world, there is no statistically significant impact of the level of development, measured as per capita income, on the level of democracy in this region.^{xi}

When one looks at the Middle East through the rubric of dependence on petroleum exports, a central explanation for the lack of democratization is presented. Rather than culturalist interpretations like ‘the clash of civilizations’ or the presumptive incompatibility of Islam and democracy – chauvinist arguments which I find all too reminiscent of earlier (and mistaken) assumptions that Catholicism was incompatible with democracy in Latin America or that individual liberties were alien to Asian values – looking at this region through an “oil lens” is instructive. It reveals, for example, that virtually all petroleum exporters are electoral ‘underachievers;’ that is, not even highly controlled elections are held in the rich oil countries – unless, like Kuwait or Iraq, they are the result of direct foreign intervention. While this may be changing, there is still little question that even highly-controlled elections can only be found in countries that either have no oil or whose oil is no longer producing massive rents, that is: Jordan, Egypt, Lebanon, Tunisia, Morocco and Algeria.

Of course oil rents are insufficient, in and of themselves, to explain the absence of democratization in the Middle East, and this is not my claim. Nor am I arguing that oil rents will permanently prevent countries from becoming democratic. But assessing the political impact of the export of oil may go farther as a central explanatory variable than the Muslim religion or Arab culture for analyzing why so many political liberalizations in the Middle East have been stalled or reversed, why no authoritarian executive has been removed from office through elections, and why elections (when introduced at all) are held primarily in non-oil rather than oil-rich countries.^{xii}

Rich Countries, Poor Institutions^{xiii}

Rents from oil deter democratization through different, though related, mechanisms. The first is based on how these petro-states collect revenues. Because oil states live from petrodollars rather than the direct taxation of wealth or productive activity, they tax their populations lightly or not at all.^{xiv} Yet scholars of state-building agree that taxation is essential for building capable state institutions; the bargaining over what is extracted from organized groups not only forges the fiscal social contracts that necessarily underlie

all effective states but also forces government agencies to become more efficient in their spending. State authority, as the Magna Carta illustrates, is historically constructed and maintained through a series of exchanges of ‘resources for institutions;’ in the best cases, this produces a virtuous cycle between political institutions and economic patterns.^{xv} Countries that live from oil may have engaged in these institutional bargains prior to the discovery of their resource, and this is occasionally the case. Lucky Norway, for example, already had a democratic and efficient state prior to becoming an exporter. But most developing oil-exporters have a problem of sequence: the construction of a modern state is either simultaneous with or posterior to the exploitation of oil. From a state-building perspective, this is unfortunate because once oil rents explode on the scene (and their impact is explosive indeed), oil regimes simply do not have to make difficult zero-sum bargains, forge social contracts, or develop effective institutions for their expenditures because they do not have to extract resources and therefore bargain with their own populations. Thus further state-building is blocked or deeply skewed, and existing “stateness” is eroded over time.^{xvi}

Two broad developmental effects result for oil-exporting countries, which further hinders the gradual acquisition of state capacity. On the one hand, *unusually high levels of external intervention* have shaped their affairs. The extreme capital-intensity and technological sophistication of the oil sector require the presence of multinational oil companies, which are the largest and most powerful corporations in the world. Oil dependent regimes are forced into an unhappy ‘marriage of convenience’ with these partners – at times cooperating with them to ensure resource extraction and at other times confronting them in order to maximize the revenues of the state. On the other hand, petro-states are even *less subject to the types of internal countervailing pressures* that helped to produce bureaucratically efficacious, authoritative, liberal and ultimately democratic states elsewhere precisely because they are relieved of the burden of having to tax their own subjects. Thus, while petro-states may look strong, the impact of reliance on petroleum rents is gradually devastating – a reality which is evident in their governance indicators.

Because oil states tend to substitute the distribution of rents for more enduring forms of statecraft, they appear large and appear powerful. But they are actually hollowed out shells of governance. This is especially evident in weakness of institutions dealing with state administration, political representation, fiscal accountability and citizen participation. Rather than take the hard road involved in designing these institutions, the lure of petrodollars presents an easier solution by creating strong incentives to adopt politically attractive but economically inefficient patterns of distribution. This is especially the case during boom periods which, from a development perspective, are the most dangerous time. Booms expand the aspirations of governments, creating dreams of a Greater Iraq or *La Gran Venezuela*, and the change the expectations of every organization, social group and individual.

A second causal mechanism for understanding how oil rents deter democratization derives from how regimes spend oil revenues. Access to easy and abundant oil rents encourage governments to overspend, believing that this “manna from heaven” will continue to pour into state coffers. Under these circumstances, the notion of development is increasingly based upon that well-known economic concept: the shopping spree. Governments in Venezuela, for example, spent more in a few years than the entire

cumulative income of the country since it was colonized by Spain. In Chad, the fourth poorest country in the world, where 80 percent of the population lives on less than one dollar a day, the country's ruler Idriss Deby did his shopping in the arms market, which enabled him to fight dissidents and imprison human rights defenders.^{xvii} Oil governments spend madly: aerial tramways in Caracas, ice-skating rinks and golf courses in the sands of Doha, the world's largest airport in Saudi Arabia, a new capitol city in Nigeria, and high rises, luxurious country clubs and palaces everywhere. But then they can be badly caught out when petroleum prices fluctuate or suddenly drop, which they are prone to do because price volatility in petroleum is greater than that of any other commodity.

Petro-states become "honey pots" for all to raid. Since rulers remain in power by distributing petrodollars in a politically astute ways, and subjects capture petrodollars by linking up to the state, economic poor planning and personal enrichment are built into the system. Indeed, economically inefficient decision-making and massive corruption become an integral part of the calculation of rulers as they seek to retain their support by distributing petrodollars to their friends, allies, tribes, and social support bases – not to mention to themselves.^{xviii} Grandiose "white elephant" projects, characterized by enormous corruption in the awarding of import quotas, industrial licenses, trade franchises, low-cost credits, and access to foreign exchange, become the normal way of doing business --their huge cost overruns notwithstanding. Where scrutiny and accountability are absent, these large projects are the best way to transfer resources to private interests. The problem of personal enrichment is not simply the problem of a few dishonest people. Where huge sums of money pour through weak institutions, it is a product of the incentives created by rents. "People rob here," one oil minister once remarked to me, "because you would be foolish not to."

Thus, oil exporters are among the most corrupt in the world.

This is compounded by ever greater spending on patronage networks of rulers, whether this patronage occurs through parties, clans, tribes, religious organizations or families, and this, in turn, further weakens existing pressures for representation and accountability. In Venezuela's former two party dominant system, for example, the vast amounts of money distributed through the party system made it worthwhile for 96 percent of the country to join a party – just as Iraqis once sought to become Ba'athists under Saddam Hussein or as Iranians now seek to be part of the Conservative Alliance. Parties are one of the chief mechanisms for milking the oil cow, and, in this respect, competitive party systems have one great advantage. In Venezuela, one in seven people was clever enough to belong to both parties!

Governments achieve popular acquiescence by feeding (and even encouraging) the appetite for oil rents, which permits regimes to buy consensus and co-op potential opponents, thus hindering the potential for building the types of strong organized political oppositions that are a basis for democratization. When basic needs are met by the state taxation is absent, populations tend to be politically inactive, relatively obedient and surprisingly loyal. Levels of protest remain unusually low – and this situation often endures longer than the state's ability to deliver petro-payoffs. After decades of living from rents, people living in oil-exporting countries seem to live in a state of both "permanent expectation" and learned passivity.^{xix} Thus, an unusual combination of dependence and entitlement marks the political culture of petroleum exporters.^{xx} This political culture helps to explain why most autocratic regimes in oil-exporting countries

manage to survive the types of economic crises that are likely to produce regime transitions in non-oil settings.^{xxi} During periods of bust, the expectations that oil prices will eventually rise and patronage payoffs will resume gives autocrats a cushion – provided that economic crises are not too deep or too prolonged.

Regimes even use their largesse to prevent the formation of social forces independent from the state that might someday prove to be political challengers as well as to rid themselves of already existing challengers – a phenomenon that has been documented (during various historical periods) in Algeria, Venezuela, Iraq, Iran, Kuwait and Qatar. In the latter two countries, for example, the political distribution of oil rents eliminated the influence of the merchant class in decision making, leaving the rulers with no real political opponents whose social class could become a separate power base. In Iran under the Shah, the political use of oil rents transformed the independent agricultural class into urban commercial interests dependent upon transfers from the state. In the context of exceptional cooptation, the emergence of a strategic opposition coalition, so essential to pushing liberalization into democratization, is especially difficult to achieve.^{xxii}

Cooptation is coupled with repression. Oil dependence is closely associated with military spending and the creation of extensive repressive apparatuses, virtually always with the support of superpowers interested in protecting their access to oil. While the average developing country spends about 12.5 percent of its budget on the military, Saudi Arabia spends a whopping almost 36 percent – a full three times as much. The extent of militarization is stunning. In the decade from 1984-1994, for example, OPEC members' share of annual military expenditures as a percentage of total central government expenditures was *three times* as much as the developed countries and *two to ten times* that of the non-oil developing countries. For these reasons, oil revenues tend to lend support, at least in the short to medium term, to whatever type of regime is in place – whether it is the occasional democracy or the more likely authoritarian ruler. While all states use their fiscal powers to reduce dissent through coercion or cooptation, oil wealth provides states with exceptional possibilities to do so. Thus, despite their institutional weakness, oil wealth is robustly associated with more durable regimes, whether they are autocratic or democratic, and oil dependence is a positive predictor of greater regime durability.

The cost of this stability, however, is very high. The political distribution of petrodollars, when coupled with vast patterns of private enrichment, raise the transaction costs of doing business in oil-exporting countries. They negatively influence the amount of direct foreign investment, lower the productivity of infrastructure expenditures, negatively affect the viability of projects undertaken and are negatively correlated with a country's credit rating, thereby damaging future performance.^{xxiii} The development results are simply astonishing. Despite the huge sums of petrodollars that flow into state coffers (or rather because of them), *the per capita income in OPEC countries has been in steady decline for the past 30 years, whereas the per capita income in non-oil producing countries in the developing world has steadily risen.* With performance like this, it is little wonder that, with the exception of some small exporters like the Emirates, social welfare statistics are so disappointing.

Oil and War

Which brings me back to paradoxes... Oil regimes as a whole may be more stable than other regimes, but they are simultaneously more prone to conflict. Countries dependent on oil are more likely to have civil wars than their resource-poor counterparts, these wars are more likely to be secessionist, and they may be of even greater duration and intensity than wars where oil is not present.^{xxiv}

In the context of great wealth, that such development outcomes eventually generate deep and escalating grievances should be no surprise. Both booms and busts produce intense social, identity-based and generational tension, especially when the huge in-migrations associated with oil production add different nationalities, religious identities and political beliefs to the mix.^{xxv} In petro-states, this is exacerbated by sharp cleavages created by a highly visible (most often) foreign industry associated with the West and very noticeable extremes of wealth and poverty in what is widely perceived to be a rich country. Contemporary Venezuelan polling data, for example, shows that 90 percent of Venezuelans believe their country is one of the richest on earth, but 75 percent say they are poor, and a huge 50 percent say there is no way to overcome their poverty. Venezuelans say that this is because their money has been stolen by the rich, the politicians, and the foreigners^{xxvi} – feelings that are strongly echoed in most oil-exporting countries. In tandem with the experience of booms and busts, this leads to reiterative cycles of expectation and frustration, hopelessness and, over time, simmering anger. Thus, while oil states may be unusually stable and their populations unusually quiescent over long periods, petro-states are also prone to very rapid shifts in public opinion and even to sudden collapse.

The first point of grievance is most often in the regions where oil fields are found because oil exploitation affects every environmental medium – air, water and land – and it frequently endangers the health and livelihoods of communities located near installations and pipelines.^{xxvii} These regions feel the greatest effects, but they tend to get the least rewards, perhaps because they are most often far from the center of power. They suffer from lower economic growth, higher inflation, greater dislocations^{xxviii} and lower per capita income – all in the context of heightened expectations. When communities protest, most regimes, whether authoritarian or democratic, respond with force to protect their oil facilities and the future revenues of the state.

Where ethnic, tribal or religious groups are different from those that control the government, an especially volatile identity element is added to the mix. This is the case in Angola, Colombia, Ecuador, Iraq, Mexico, Chad, Sudan and elsewhere.^{xxix} Where secessionist movements are present, the likelihood of conflict is especially high because the promise of oil wealth appears to make viable a secession that might otherwise not seem possible in poorly-endowed areas. In the Sudan, which is widely analyzed as solely an identity conflict, the war was actually triggered by President Numeiry's decision to place newly discovered oil fields in the country's Christian South under the control of the Muslim north. In Indonesia, the Aceh Freedom Movement denounced the government theft of Aceh's oil and natural gas resources as a main reason for its separatist struggle, and it has used the analogy of Brunei to convince its followers that Aceh could be equally as rich.^{xxx}

Perhaps the best-known instance is the Niger Delta, where it is impossible to convey the devastation wrought by oil. Once thriving and self-supporting villages have been made completely unlivable, security forces and rebel groups have caused severe human rights abuses, and communities have found few ways to seek redress – except by holding hostage the producers and the production of oil. With no schools, no medical clinics, no social services, no clean water, no cooking fuel, no paying jobs, and massive spills everywhere, it is little wonder that rebels have declared war on the foreign oil companies they hold responsible for destroying their land. “Our aim,” says a spokesman for the Movement for the Emancipation of the Niger Delta (MEND) “is to totally destroy the capacity of the Nigerian government to export oil.”^{xxxii} Given that the government lives on petrodollars, this is a formula for the permanent instability and violence in the fifth largest oil-exporter in the world – which is now called “the next Iraq.”

Petroleum is unique among the world’s resources; it is more likely to be associated with conflict than any other commodity. This has been the case since its discovery outside the United States, but what we are witnessing today is a significant shift in the contemporary relationship between oil and war.^{xxxiii} Where petroleum was once mainly considered as the key strategic commodity necessary to provide fuel for fighting cross-border wars and where the security of oil supplies could once be achieved through direct military control of territory or the exercise of influence over autocratic allies, the situation today is very different. Oil is still a vital strategic commodity for the West, but, as oil rents have soared with rising prices and as easily accessible global supplies have dwindled, petroleum has become a *motivation* for war, a *means* of financing these wars, and a *rationale* for perpetuating them.

Let me try to capture the magnitude of this change. It cannot be boiled down to the fact that civil wars have replaced cross-border wars as the main form of conflict today. Contemporary oil wars are *rentier* wars. Whatever the motivations of fighters and whatever religious, ethnic or other differences may also drive conflict, where oil is present these wars necessarily involve struggles for control over the tremendous gains generated by this vital resource. This is why I said that all wars in oil-exporting countries are wars become wars for oil – regardless of how they begin. What is different in the latter part of the twentieth century, in the wake of oil price shocks starting in 1973, is the enormity of the rents involved. Rents of this magnitude have not been seen since the beginning of the oil industry. Look at the change in the final part of the twentieth century, and imagine this graph with the \$70 per barrel figures of the past year.

The combination of actors involved in seeking these rents is also different. Where ‘old oil wars’ were geo-political wars that involved competition between states, especially the Great Powers, and the construction and control strong centralized authority if only for the purpose of awarding oil contracts and concessions, this geo-political competition has been supplemented by struggles among various domestic actors that effectively parcel out or even dismantle the state in their efforts to gain rents and by violent predatory behavior on the part of non-state forces for direct access to oil rents in both legal and illegal ways. As in the past, oil rents provide arms and monies for centralized oil governments to repress opposition, but now they also become linked with violence at every level, making it especially difficult to re-establish authority through the control of territory. Thus, rent-seeking not only permeates the motivations for war^{xxxiii}

but also the means by which they are pursued and financed, and it is no accident that the period of greatest rents is also the period of greatest civil war.

Thus huge oil profits create a whole new political economy based on criminality, with its own logic and intensity. Pipelines are bombed, personnel are kidnapped, and oil is “bunkered” or stolen in order to set up a for-profit “protection racket.” In Chechnya, for example, bootlegged oil is a key source of income, sold to the very Russian forces that Chechens are fighting, who in turn sell it on the black market. In Iraq alone, there have been at least 386 attacks on oil installations and personnel, and both rebel and criminal networks tap directly into pipelines to siphon off oil in the south. In Colombia, oil helps to finance two rebel groups and right-wing paramilitaries. In the Niger Delta, the cost of hiring a thousand trained militia members for a month and arming them with a thousand AK-47s is equivalent to the proceeds of just one half day’s worth of bunkered oil!^{xxxiv} Petrodollars pay for armies, death squads, the forcible clearing of entire populations away from oil fields and pipelines, and widespread terror against the local population. This slowly changes the logic of war: changes: where armed forces once used oil to finance war, they begin to use war as a means for furthering their access to oil. In this respect, oil rents perpetuate wars and make them even uglier, encouraging networks of state and non-state actors, where out-and-out battles are rare and violence is directed mainly against civilians, the symbols of order, and the oil industry itself.

Back to Iraq

Evidence shows that the prospects for oil-exporting countries are bleak indeed – at least without coordinated forms of cooperation to alter the dynamics of the world oil sector. Norway, which is held up to oil-exporters as an example of “best practices,” is the case of a virtuous development cycle. By bringing its oil fortune under strict control, it has been able to ward off most of the insidious rent seeking that followed in the wake of oil discoveries elsewhere, and the result speaks volumes: in recent reports of the United Nations Human Development Index, Norway ranks as the number one country – a major oil-exporter leading the world in development, democracy and absence of conflict.

But Norway’s lessons for other oil-exporters could seem discouraging. It demonstrates that the problem of managing oil wealth, which is intrinsically difficult in itself,^{xxxv} is first and foremost a problem of historical sequence: good institutions must be in place *prior* to the exploitation of oil.^{xxxvi} When oil revenues came on stream in this Scandanavian country, it was already blessed with a strong civil service state and a vibrant democracy capable of managing this new challenge. As NGOs and scholars have consistently pointed out, good governance, transparency and participation are *prerequisites* for the effective utilization of petrodollars to alleviate poverty and prevent conflict -- not the other way around, thus these issues must be addressed before oil is exploited.^{xxxvii} This is the crux of the “paradox of plenty:” it is simply a lot easier and faster to build a pipeline than an efficient and representative state.

Depending on their degrees of prior state capacity, oil countries have suffered differently from this problem. Nonetheless, all share the same challenge: without measures to stop rent-seeking (a topic for another talk),^{xxxviii} they are faced with an extraordinarily perverse development cycle. Well directed political and economic reforms

can certainly prevent poor development outcomes, but they are especially difficult to carry out where rents can be utilized to postpone change. Paradoxically, it may be only in moments of severe crisis -- when oil states fail or when rents dry up -- that possibilities for reform are most likely to arise.

Which brings me back to Iraq... Once the dynamics of oil-exporting countries are understood, it is simply folly to believe that the democratization of any oil-exporting country, or military intervention for whatever purpose, will be easy and cost-free, regardless of the nature of the previous autocratic regime. This is true for Iraq, and it is equally the case in Iran, Nigeria or any other major oil-exporter. Because all longstanding oil autocracies have sustained themselves not only through repression but through the politically astute distribution of benefits in networks of patronage, this means they have more support and loyalty than might initially appear to be the case. Furthermore, petrodollars have permitted the manipulation of their social structures to prevent the emergence of the very types of types of social actors that form the basis for a transition to democracy, and this means that oppositional coalitions will be especially hard to forge. Once militarization is added to the mix, the prospects for democracy are grim indeed. How can democracy flourish when at least 34 thousand are dead in one year alone, 77 percent favor a "strongman" to restore order, an average of 185 bombings and attacks take place per day, and almost two million educated Iraqis have fled their country, including most middle class professionals who are a key basis for democratization?

Oil wars cannot easily be fought, and they are unlikely to be won militarily. Driven by genuine grievances and long-simmering anger, sustained by oil rents, and permeated by the well-founded suspicions of nationalists that foreigners want their wealth, they become contests of 'whack-a-mole' against fluid networks of militias in situations where borders are increasingly irrelevant. This means that the political objective of creating a stable and peaceful regime in Iraq or any oil-exporting country through military means is simply unrealistic.

Finally, and this is my key point, a significant piece of the resolution of conflict in oil-exporting countries, unlike civil wars in other countries, must lie in addressing the issues raised by oil itself. First and foremost, this means reaching broad-based and publicly debated political agreements that transparently and fairly define the future division of oil wealth. Petroleum rents are at the core of the motivation for war or the means for pursuing war or the rationale for perpetuating war. Therefore, they must be the central component of peace.

This is exactly what is not happening in Iraq today. Virtually unnoticed amid the furor over the hanging of Saddam Hussein and the proposed "surge" in U.S. troops, Iraq's Oil Committee has agreed a final draft of an oil law that sets rules for sharing revenues and boosting output. This oil law, which was announced today, promises to bring in billions of dollars of foreign investment and calls for a federal committee headed by the prime minister to oversee all future oil contracts. Under U.S. pressure, the law is aimed at settling potentially explosive disputes among Iraq's ethnic and sectarian communities over the division of the world's third biggest known crude oil reserves. "This is a national project, Iraq's government spokesperson announced, and there are no differences on the law"

What is not said is far more important. This new draft law does not stipulate what form future oil contracts would take, which is the main revenue-raising issue for Iraq.

Instead, another draft law, written largely by foreigners, is reputed to permit Western oil companies to obtain contracts of up to 30 years to pump oil out of Iraq; there will be no restrictions on the repatriation of profits, and the profits would be tax-free until all costs are recovered. According to British oil industry watchdog group Platform, the return for foreign investors under the proposed terms would be between 42 and 162 percent, far higher than the more usual industry figure of 12 percent.^{xxxix} No other major Middle Eastern oil-producing country has ever entered into these types of contracts, which would potentially lock Iraq into an oil agreement from now until 2037. The Iraqi Petroleum Workers Union has already declared its opposition, declaring this a national affront that would undue Iraqi control over its own industry, a matter of strong nationalist pride since 1975. But crippled by the remaining debt from the Saddam Hussein's regime and a war-torn economy, the government may believe it has little choice about signing this law. This is precisely the type of deal, written in secret, signed without public debate and pushed through in the midst of chaos that is likely to sow the seeds for future conflicts over Iraq's natural resources. A 2005 poll found that 74 percent of Iraqis believed the main reason for the U.S. invasion was to control their oil. If this law is adopted in this way and with this content, their suspicions might well be vindicated.

Oil states are 'honey pots' – ones to be raided by all actors, foreign and domestic, regardless of the long-term consequences produced by this collective rent seeking. In computer terminology, a honey pot is a trap that poses risks to an entire system if it is not appropriately contained. The analogy is appropriate: the pursuit of oil rents by both domestic and international actors not only threatens the economic and political stability of petro-states but also the health of the international economy and the prospects for a more peaceful world. Whatever the past benefits of relatively cheap energy, current arrangements in the oil sector are now associated with so many harmful outcomes that these arrangements must be changed. These perverse impacts are not confined to the world's hotspots like Iraq, Indonesia, Sudan, Chad, the Niger Delta and Colombia but also to countries attempting to manage serious domestic cleavages like Venezuela, Ecuador, Azerbaijan, Iran, Saudi Arabia, and Russia.

Today, at least 34 less-developed countries rely on oil and natural gas for at least 30 percent of their export revenues, and over one-third of these countries have annual per capita incomes below \$1500.^{xi} Their people are oil rich but dirt poor. Almost all the latter group and some of the former are potential or actual failing states. Make no mistake, unless we urgently change the current injustices in the way the benefits of oil are distributed, alter our own consumption patterns and search for less damaging energy alternatives, these state failures will blow back on us, fueling more and more conflict in the future and thereby weakening the prospects for democracy throughout the world. The push for democracy in Iraq has already caused the United States to lose its credibility in advocating rights that it flaunts at home and abroad. In this respect, democracy is indeed over a barrel.

ⁱ This Eckstein Lecture on Democracy, given annually in honor of noted political scientist Professor Harry Eckstein, was delivered at the University of California, Irvine on January 18, 2007. In honoring Professor Eckstein, I would also like to remember his “democracy colleague,” Professor Seymour Martin Lipset, and my father, Dr. Michael M. Karl, a physician to a few of the One Thousand Children – both of whom recently died. I would also especially like to thank William Schonfield and Dorothy Solinger for this kind invitation.

ⁱⁱ For more information on these children, see <http://www.onethousandchildren.org/>

ⁱⁱⁱ Larry Diamond, "Can the Whole World Become Democratic? Democracy, Development, and International Policies" (April 17, 2003). *Center for the Study of Democracy*. Paper 03-05. <http://repositories.cdlib.org/csd/03-05>.

^{iv} As Defense Secretary Donald Rumsfeld, told CBS news on 11/14/02, “It has nothing to do with oil, literally nothing to do with oil.” Others beg to differ. As one British MP remarked in 2003, “Do you think we would go to war if Iraq exported carrots?” His comment was echoed by White House press secretary Tony Snow who recently let slip a hint regarding the administration's insistence on a U.S. military victory in Iraq when he offhandedly remarked to reporters: “It's kind of hard to leave Iraq with all that oil around.” See John Patrick Grace: Has Iraq war always been about oil?” <http://www.herald-dispatch.com/>, January 15, 2007. But whether or not oil was the primary motivation for war, significant evidence demonstrates that it played a major role in the decision to invade as well as the resolve to stay in Iraq. See, for example, Mary Kaldor, Terry Lynn Karl, and Yahia Said (eds.) *New Oil Wars*, (London: Pluto Press, forthcoming 2007) and Jennifer Loven, “Bush gives new reason for Iraq war: Says US must prevent oil fields from falling into hands of terrorists,” Associated Press, August 31, 2005.

^v For example, in the months, leading up to the war in Iraq, administration officials emphasized that the Iraq war would be inexpensive since the country has oil. Thus, Deputy Defense Secretary Paul Wolfowitz said, “There’s a lot of money to pay for this that doesn’t have to be U.S. taxpayer money, and it starts with the assets of the Iraqi people...and on a rough recollection, *the oil revenues of that country could bring between \$50 and \$100 billion over the course of the next two or three years...* We’re dealing with a country that can really finance its own reconstruction, and relatively soon.” [House Committee on Appropriations Hearing on a Supplemental War Regulation, 3/27/03]. Defense Secretary Donald Rumsfeld also said: “I don't believe that the United States has the responsibility for reconstruction, in a sense...[Reconstruction] funds can come from those various sources I mentioned: frozen assets, *oil revenues* and a variety of other things,, including the Oil for Food, which has a very substantial number of billions of dollars in it. [Source: Senate Appropriations Hearing, 3/27/03]. Instead, the cost of the Iraq war is currently in the range of \$359 billion dollars, and the oil industry is too devastated to make any substantial contribution.

^{vi} Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley: University of California Press, 1997).

^{vii} Seven out of ten Iraqis overall — including 74% of the Shi’ite majority and 91% of the Sunni minority — say they want the United States to leave within a year. Fewer than one in ten Iraqis (9%) believe foreign forces should only be reduced “as the security situation improves,” a drop of 20 points since January. Support for this option has fallen especially steeply among Shias (from 29% to 5%) and Kurds (57% to 31%). Nearly all Sunnis also oppose the indefinite presence of foreign forces (2% in favor). See World Public Opinion, <http://www.worldpublicopinion.org/pipa>.

^{viii} Rents, according to Adam Smith, was wealth that is reaped where it has not been sown, that is, excess wealth disconnected from productive activity.

^{ix} On these points, see Karl (1997) above and other works by the same author: “The Social and Political Consequences of Oil,” Cutler Cleveland, ed., *Encyclopedia of Energy*. (San Diego: Elsevier, 2004); and “The Perils of Petroleum: Reflections on *The Paradox of Plenty*,” in *Fueling the 21st Century: The New Political Economy of Energy*, special edition of *The Journal of International Affairs*, vol. 53, no. 1 (Fall), 1999. See, Michael Ross, “Does Oil Hinder Democracy,” *World Politics* 53, 2001, 325-61 and Benjamin Smith, “Oil Wealth and Regime Survival in the Developing World,” *American Journal of Political Science*, April 2004, 232-46.

^x Seymour Martin Lipset, 'Some social prerequisites of democracy: economic development and political legitimacy', *American Political Science Review*, Vol. 53 No. 1, 1960, (March): 69–105.

^{xi} Scott Mainwaring and Aníbal Pérez-Liñán (2004), 'Regional effects and region-wide diffusion of democracy: Why regions of the world are important in comparative politics', paper presented at the 2004 Meeting of the American Political Science Association.

^{xii} For a counter-argument that emphasizes the incompatibility of Islam and, see Y. Choueiri, "The Political Discourse of Contemporary Islamist Movements," in Abdel Salem Sidahmed and Anoushiravam Ehteshami, eds., *Islamic Fundamentalism* (Boulder: Westview Press, 1996) and Bernard Lewis, *The Shaping of the Modern Middle East* (New York: Oxford University Press, 1994).

^{xiii} This section is drawn from my previous work cited in note 7, as well as "The Political Challenge of Escaping the Resource Curse: The Case for a Transparent Fiscal Social Contract" in Macartan Humphreys, Jeffrey Sachs and Joseph Stiglitz (eds.), *Escaping the Resource Curse* (New York: Columbia University Press, forthcoming 2007). Recent quantitative work has reiterated this argument about the institutional weakness of the petro-state as an explanation for autocracy and war. See especially the recent work of James Fearon, including "Primary Commodity Exports and Civil War," *Journal of Conflict Resolution* 49, 4 (August 2005), 483-507.

^{xiv} See Karl, 1997, cited above.

^{xv} In the European experience, for example, state building arose primarily from the long and violent struggle to define national borders – a struggle that required taxation. The development of the modern state paralleled the growth of permanent standing armies because any state that wished to survive had to increase its extractive capacity to pay for its protection; war generated an increased need for revenues that could only be met through taxation or borrowing. Because taxation often provoked costly and violent resistance, and borrowing depended on the ability to demonstrate a secure revenue base, regimes had to invest real political and organizational effort into developing linkages with their subjects in order to raise the revenues they needed. In this respect, states became motors of change. Rulers learned that using consensual mechanisms for extracting taxes was in their interest in the end, even if this meant increasing revenue transparency, submitting to oversight in the revenue-raising and public spending processes, and giving taxpayers a say in how their monies were spent. The net result was the construction of an administrative apparatus that could penetrate the national territory, the creation of merit-based civil services, the evolution of the rule of law to ensure compliance on all sides, and the facilitation of some type of representative institutions that could provide for some citizen input. See Charles Tilly, (ed.). *The Formation of National States in Western Europe*. (Princeton: Princeton University Press, 1975) and *Coercion, Capital and European States, AD 990-1992* (Cambridge MA and Oxford UK: Blackwell, 1992). Also see James Mahon, *Liberal States and Fiscal Contracts: Aspects of the Political Economy of Public Finance*, (Paper presented at the Annual Meeting of the American Political Science Association, Washington DC: 2005).

^{xvi} One important measure of the erosion of stateness is the dismantling of civil service systems and domestic taxation bureaucracies where they previously existed. This occurred in Venezuela during the 1970s and in Iraq after the U.S. occupation.

^{xvii} During my last trip to Chad, I witnessed how the lure of employment in the oil sector emptied the university in N'Djamena of its faculty and led to the closure of fourteen schools in the oil region as teachers sought more profitable work.

^{xviii} The stories of personal enrichment are legendary: In Angola, where Global Witness reports that a billion dollars a year - representing about a quarter of its oil revenues - disappears, President Dos Santos keeps large sums of money in secret bank accounts while 70 percent of Angolans live on less than a dollar a day; Kazakhstan's President Nazarbayev has secreted over a billion dollars in a secret fund in Switzerland and the largest foreign corruption investigation in U.S. legal history has uncovered kickbacks received by Nazarbayev from both Chevron and Mobil; and in Equatorial Guinea, major U.S. companies pay revenues directly into a Riggs bank account under President Obiang's direct control. For more on these cases, see the excellent investigative reporting at www.globalwitness.org.

^{xix} The phrase is from Lisa Margonelli, *Oil on the Brain: Adventures from the Pump to the Pipeline* (New York: Doubleday, forthcoming).

^{xx} This is especially the case in smaller exporting states like the Gulf monarchies, where oil reserves per capita are 43 times those of large exporting states like Algeria, Indonesia, Nigeria, Venezuela, and Iran and where such costly distributive policies can be sustained for a longer time.

^{xxi} See Benjamin Smith, "Oil Wealth and Regime Change," in Michael Dauderstadt and Arne Schildberg (eds.), *Dead Ends of transition: Rentier Economies and Protectorates* (Frankfurt: Campus Verlag, 2006).

^{xxii} Marc Morje Howard and Philip Roessler "Liberalizing electoral outcomes in competitive authoritarian regimes", unpublished draft, 2004. Note that the emergence of a strong opposition is the key factor in their statistical study of why competitive elections are held in authoritarian regimes.

^{xxiii} G.D. Sutton, "Potentially endogenous borrowing and developing country sovereign credit ratings." *Occasional Paper*. (Basel: Bank for International Settlements, 2005).

^{xxiv} There is a burgeoning literature on the association between oil and war. See, for example, Daniel Yergin, *The Prize: The Quest for Oil, Money and Power*, Free Press; Reissue edition (January 1, 1993). Paul Collier and Anke Hoeffler, *Greed and grievance in civil war?* (Washington, D.C.: World Bank, 2000) and "Greed and Grievance in Civil Wars" *Oxford Economic Papers* 56, 2004:663-595; Philippe Le Billon, "The Political Ecology of war: natural resources and armed conflicts." *Political Geography* 20: 561-584, 2001; Michael Klare, *Blood and Oil*, (New York: Owl Books, 2004); and James Fearon, "Primary Commodity Exports and Civil War." *Journal of Conflict Resolution* 49, 4 (August 2005), 483-507.

^{xxv} Some countries in the Gulf region, for example, have more foreigners than citizens.

^{xxvi} This data is from Alfredo Keller, considered Venezuela's leading pollster.

^{xxvii} Crude oil and the byproducts of extraction contain significant quantities of toxic substances and other pollutants. These include benzene (a carcinogen), toluene (a liver and kidney toxicant), mercury, lead, sodium (which makes soil unfit for vegetation), hydrogen sulfide (a neuro and reproductive toxicant) and sulfur dioxide (a major contributor to acid rain). Chronic small spills or the improper handling and release of waste and toxic substances can seriously damage local residents, plants, animals and the soil.

^{xxviii} This includes higher in-migration, often from other countries, ethnic groups or religions, increased prostitution, AIDS and crime.

^{xxix} This is also the case, for example, of the municipality of Yopal in Columbia, the Bakola/Bayeli pygmies around Kribi, Cameroon and the communities of the Cohan indigenous people in Ecuador. For Columbia, see the excellent chapter by Jenny Pearce in Mary Kaldor, Terry Lynn Karl, and Yahia Said (eds.) *New Oil Wars* (London: Pluto Press, forthcoming 2007) and Thad Dunning and Leslie Wirpsa "Oil and the Political Economy of Conflict in Colombia, *Geopolitics* 9,1, Spring, 2004. For Chad and West Africa, see Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor*. (Catholic Relief Services Press, 2004). For Ecuador, see A. Gerlach, A., *Indians, Oil, and Politics: A Recent History of Ecuador*. (Wilmington DE.: Scholarly Resources Inc., 2003) and for Sudan, see reports by Human Rights Watch at www.humanrightswatch.org.

^{xxx} Oil even lay at the basis of the Nigerian civil war. Biafra's move to secede only occurred after the government had made fiscal decisions treating oil as a centralized, rather than a regional, asset.

^{xxxi} On Nigeria, see "Nigeria: political violence, governance and corporate responsibility in a petro-state" by Okey Ibeanu and Robin Luckham in Kaldor, Karl and Said, cited in note 26. For a compelling description of the Niger Delta from which the MEND quote is taken, see Sebastian Junger, "Is Nigeria the Next Iraq?" *Vanity Fair*, February 2007.

^{xxxii} This is the central argument of Kaldor, Karl and Said, cited in note 26.

^{xxxiii} That oil wars are *rentier* wars is seen in the mix of motivations provoking violence. Oil rents can be the main impetus for going to war – either directly or indirectly – and they may be the catalyst for a conflict that might not otherwise happen. In the Republic of Congo, for example, an opposition group received

\$150 million funding from the French oil company, Elf-Aquitaine, to support a takeover of the government so that the oil company could receive more favorable treatment under the new regime (which it subsequently did). The payment financed a four-month war that resulted in 10,000 dead and the destruction of parts of Brazzaville. Leonce Ndikumana and Kisangani Emizet, "The Economics of Civil War: The Case of the Democratic Republic of Congo," *Peri Working Paper* No. 63 (July 1, 2003). Available at SSRN: <http://ssrn.com/abstract=443580>. Also see Michael Ross, "What Do We Know about Natural Resources and Civil War?" *Journal of Peace Research*, Vol. 41, No. 3, 337-356 (2004)

^{xxxiv} A similar pattern has taken shape in Indonesia's Aceh province, Nigeria's Niger Delta, and southern Sudan. For more on these examples, see especially the chapters by Ibeanu and Luckham (Nigeria), Said (Chechnya) and Pearce (Colombia). The statistics on bunkering in the Niger Delta are from Margonelli, 247.

^{xxxv} However well it has performed under the pressures of oil wealth, even this technologically sophisticated "civil service state" has faced serious difficulties controlling its oil rents. Norwegian public policy has led political conflicts over the use of oil revenues, which some voters see as "a growing cake that voters cannot eat." See O. Listhaug, "Oil Wealth Dissatisfaction and Political Trust in Norway: A Resource Curse?" *West European Politics*, Vol. 28, No. 4, 2005, 834-851.

^{xxxvi} Norway's point of departure, as a new oil exporter, was from an already high level of development, with a pre-existing merit-based, technically competent and honest bureaucracy, and a strong democracy. With information, monitoring and participation "stateness" mechanisms already available, it was able to hold a broad debate over the appropriate utilization of oil revenues, reorganize its Ministry of Industry, create the highly efficient Statoil, define explicit roles for public and private companies, sustain a diversified economy, rein in borrowing, and establish an oil fund invested abroad to sterilize excess revenues. It even protected the state's non-oil fiscal capacity by resisting the strong temptation to lower taxes and permit oil revenues to replace its normal revenue base.

^{xxxvii} Note that the Extractive Industry Review of the World Bank Group, which issued its recommendations in January 2004, reached a similar conclusion and thus recommended that the World Bank refrain from promoting oil projects in the developing world.

^{xxxviii} See especially the forthcoming volume, *Escaping the Resource Curse*, edited by Macartan Humphries, Jeffrey Sachs and Joseph Stiglitz.

^{xxxix} A copy of the draft law has been obtained by *The Independent* and extensively discussed. See <http://news.independent.co.uk/world/americas/article2152438.ece> and <http://www.uruknet.de/?p=m29622&s1=h1>

^{xl} N. Birdsall and A. Suramanian 2004. "Saving Iraq from Its Oil," *Foreign Affairs*, 77.