**HOW DOES OIL HELP DETERMINE THE DEMOCRATIC NATURE OF A NATION?**

While we see almost everywhere else, this wave of democratization, great success in peace-building efforts, significant economic growth, rising living standards, in the oil-producing countries there has been almost no move towards democracy. Mexico and Nigeria are exceptions, but elsewhere very, very little movement. We have seen no decrease in civil wars, so that today about half of all civil wars in the world are taking place in oil-producing countries—Nigeria, Chad, Colombia, and so forth.

And the incomes of the oil-producing countries are no greater today. In many cases they are actually lower than they were in 1980. These countries reached their peak of per-capita income 30-35 years ago and have only recently approached that level once again…

What happened? Why did these problems arise? Interestingly enough, we didn't observe these problems before about 1980. Up until the 1970s the oil-producing countries were no less democratic, no more conflict-ridden, than the rest of the world, and their incomes were rising more quickly. What was it in the 1970s that led to this reversal, and is there something that can be done?

One way to try to explain how this came about is to imagine two countries—let's call one of them Industria, which has only manufacturing; and the other called Petrolia, which is based only on oil—and let's imagine that the incomes and populations are about the same and the rest of their geography is about the same.

What do we know just from those bare facts about what might be different about Petrolia, one of the petroleum-rich countries?

First of all, we know that the revenues that the government gets that fuel politics are much larger. The average oil-rich government is maybe two or three times larger than the average non-oil government, even at the same income level. As a fraction of the economy, the governments tower over the private sector and all other actors. Oil revenues are very, very large. They may or may not generate wealth for the people, but they generate a lot of income for governments. So we have very large governments. The simple scale of these revenues is one critical difference between Petrolia and Industria.

A second difference, which matters a lot for the course of democracy, is that the revenues that Petrolia gets do not come from taxing the people. In Industria, the government has to fund itself. It has to go regularly to the people and ask for some sort of tax contribution, and people may object, they may despise it, but when they pay their taxes they demand some accountability. They scrutinize where that money goes. They pay much more attention and demand much more knowledge and many more services in return. Petrolia, which has all of this additional revenue, so it seems like a very wealthy government, is able to avoid this kind of scrutiny.

A third critical difference is the stability of the revenue and the stability of the economy...[O]il prices are very volatile, they are up and down unpredictably...They fluctuate—granted, for real-world reasons—but it's extremely hard to predict, as you know, where they are going. This has an effect on governments. The government that wants to plan a five- or ten-year development plan to build roads and bridges and fund schools and higher education may have a great plan this year and next year see its revenues disappear. Knowing that its revenues are going to disappear might also give people a short-term perspective. They might think: "You know what? This isn't going to be around very long. I'm going to get it while it's there and try to make off with what I can, rather than think about the future." So it can lead to a short-term perspective and great difficulty in this sort of long-range planning.

It also helps explain why you see…why so many of them are littered with ambitious infrastructure projects that have been abandoned or are crumbling. It's easy to build a road; it's much harder to build an institution to maintain that road in perpetuity. It's easy to build physical infrastructure one time; it's very difficult to have a government that maintains it and provides for the long-term well-being of that population and can keep its infrastructure up.

The final problem is secrecy. The revenues that the Petrolia government accrues are much, much easier to hide than Industria's revenues. All governments have procedures for collecting taxes and producing annual budgets, even in authoritarian states. They typically submit these budgets to their parliaments. There is some sort of nominal review. The central bank publishes some information about what the government is doing.

But in the oil-funded countries it's much, much harder to follow this revenue, even though there's a lot more of it around. One reason is that a lot of functions are done by national oil companies. So, for example, in Iraq under Saddam, about half of the government's projects, half of the government's budget, went through the national oil company.

Not just a quirky feature of our friend Saddam. In Azerbaijan today, about half of the government's budget is run through SOCAR, the national oil company. The government submits its annual national budget to the parliament and people can kind of look at it. Not a very democratic place, but people can look at it and they know something about where it's going and how it's being spent. But half of everything else that is an equal amount is being funneled through SOCAR and nobody knows where that money goes, how it disappears. SOCAR is allegedly building hospitals and roads and funding all kinds of things.

In Venezuela, one of the legacies of Hugo Chávez is to turn PDVSA, the state-owned oil company, from a rather well-run, professionally managed, hands-off operation, that was admired really throughout the world, into a piggybank for all kinds of projects that are completely unrelated. Now, many of them sound nice. Some of them don't sound so nice—actually, a lot of military funding now is siphoned out of PDVSA. He also stopped publishing information about the budget of PDVSA and where this money was going. Venezuela used to be a relatively transparent place. Not nearly so much anymore.