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THE ROLE OF RESOURCES IN REGIME EVOLUTION

by

EKATERINA BOYKO

Under the Direction of Dr. Jennifer McCoy

ABSTRACT

The evolution of political regimes of resource-rich countries is a highly relevant topic as the debates continue about the likelihood of those countries to democratize. Conventional wisdom dictates that large oil endowment impedes democratic development. However, recent studies found that oil and gas can both contribute to and undermine democracy. At the same time, the subject of how and why a democratic resource-rich country backslides to authoritarianism has not been researched in-depth. This thesis argues that the effect of oil and gas endowment depends on who controls the resources: whether the state controls the industry's operations or the industry is run independently from the state. The theory is tested on two cases, Russia and Venezuela, which experienced both democratization and authoritarian backsliding. With two models (independent and state control of hydrocarbon resources) for each case, we found the dynamic of hydrocarbon industry control impacts regime evolution.

INDEX WORDS: Energy resources, Oil, Natural gas, Regime type, Regime evolution, Resource control, Democracy, Electoral democracy, Competitive autocracy

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EKATERINA BOYKO

A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of

Master of Arts

in the College of Arts and Sciences

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2013

THE ROLE OF RESOURCES IN REGIME EVOLUTION

by

EKATERINA BOYKO

Committee Chair: Dr. Jennifer McCoy

Committee: Dr. John Duffield

Dr. Charles Hankla

Electronic Version Approved:

Office of Graduate Studies

College of Arts and Sciences

Georgia State University

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1 INTRODUCTION

To explain a country's regime evolution scholars have looked at various explanations: historical, sociological, constructivist, and institutional. Yet, even if these explanations predict one outcome, some factors such as a large resource endowment are considered predetermining for the country to take another regime trajectory. The conventional wisdom says that the heavy endowment of natural resources, especially hydrocarbons, is an impediment for democratization, and it also negatively affects economic institutions - the resource curse argument.

Nevertheless, T. Dunning, P. Luong and E. Weinthal challenged this conventional wisdom by pointing out the conditions under which heavy endowment of natural resources could have a democratizing effect and lead to strong fiscal institutions. The scholars point out the deviant cases of resource curse in two regions: Latin America and former USSR. In particular, two cases appear to challenge the conventional wisdom as they began to democratize with a heavy endowment of hydrocarbon resources: Venezuela and Russia. At the same time, T. Dunning admits that he cannot explain subsequent regime evolution (backsliding) toward authoritarianism after an initial democratizing effect in Venezuela and cannot explain why Russia, having conditions for democratizing effect of resources, turned away from this path. P. Luong and E. Weinthal indicate that there is a conditional effect of hydrocarbons on economic institutions, contingent on ownership type and control, but they do not thoroughly explore the potential political effects of it.

I would like to examine this puzzle by analyzing the role of resource exploitation arrangements: industry assets ownership, regulations and control over the industry. My argument is that the degree of independent control of hydrocarbons (regardless of whether technically state or privately owned) has important implications for regime evolution. I plan to look at the countries who are some of the major world oil producers, yet the oil doesn't always have the effect predicted by the resource curse argument.

The resource curse argument seems to apply to the former USSR countries for some of which the hydrocarbon industry is vital for the economy. We do not see pure democracy among these countries, but there is still a significant variation in democratic score: from -9 to 4 in Polity IV (from autocracy to hybrid regime) and from “not free” to “partly free” according to Freedom House. Even further, the democratic score of Russia has variation over time since its independence: from 1 to 6 in Polity IV (hybrid regime), “partly free” to “not free” in Freedom House. What causes this variation across countries from the same region and what causes variation within one country’s score?

The primary goal of my research is to identify the factors behind the variation in regime within resource-rich countries. I start my research with post-Soviet region and specifically the USSR successor Russian Federation. I also plan to test my theory outside of the region and compare Russia with Venezuela. Latin America has more experience with democracy and its countries have gone through a number of regime transitions. Venezuela is a major hydrocarbon producer in the region, like Russia in post-Soviet region, and there may be a similar effect of these resources on regime evolution. Each country experienced regime evolution over time under heavy resource endowments: Russia - from authoritarian USSR to democratizing in 1990s and backsliding in 2000’s, Venezuela - from democratization 1960s-80s to backsliding in the 2000’s. It will be interesting to see what mechanisms in these two cases contribute to these changing regime dynamics.

A wide variety of factors may impact these countries’ paths, but in my research I would like to examine the role of economic forces in shaping the regime and particularly the role of the hydrocarbon industry. I argue that the economic impact of natural resource wealth has the potential to influence the political climate of a country experiencing regime transition, but this impact is contingent on the state’s degree of control over industry.

1.1 Literature Overview

The above argument of privatization of resources is based on several strands of literature: on democratic development, specifically on the economic explanations, the resource curse literature and recent modifications of theory on resource-rich countries.

In the end of 20th century the argument that liberalization of the economy contributes to democratization became widespread. A country's inclusion in the global economic system, opening the market, privatizing assets and commercializing the domestic economy - are all believed to promote the democratic form of government. This theory has been supported with numerous quantitative studies. And among them recent works of several authors: Steven Fish, Omar Choudhry, and Kwon Hyeok Yong, - confirmed the connection between the economic liberalization and democratic development.

Hyeok Yong Kwon empirically found that economic reforms contributed to the democratization in post-soviet countries in contrast to Latin America (as resistance of existent groups to reforms can undermine the democratization)[1]. Steven Fish and Omar Choudhry found that economic liberalization contributes rather than undermines the process of democratization, yet the relationships become significant in the long run. Through empirical testing the relationships between liberalization and improvement of welfare, the relationships were found positive (overall, more people benefit from the reforms), and in the same time authors found that liberalization contributes to increased inequality (the economic transition in the same time is painful for the citizens, which leads to inequality)[2].

The relationships between political institutions and mineral resources have been well researched. The conventional wisdom is expressed best in the "resource curse" argument. From the very beginning the term carries negative connotations as an obstacle to a country's development, particularly with respect to the level of democratization, but it also applies to poor economic development.

According to the "rentier state" theory, mineral resource industries makes other industry uncompetitive by making them unprofitable (increasing exchange rate, "Dutch disease"), and causes weak fiscal

[1] Kwon 2004
[2] Fish, Choudhry 2007

policies as the revenues coming from the energy sector seem to be unlimited. In addition, resource-rich governments earn revenue from their natural resources that allows them to pay for a set of basic public goods and services without taxing their citizens. Consequently, their citizens do not demand a more accountable, democratic regime and governments do not need to negotiate with citizens to tax. This positively contributes to the consolidation of the existing political regime leading to an authoritarian form of government.

J. Sachs and A. Warner developed the economic extent of the resource curse argument in an empirical study in which they concluded that natural resource abundance impedes economic growth and those countries also are less likely to adopt an export-led growth strategy[3], which further slows the economy[4]. There is a common belief that "the price of oil and the pace of freedom always go in the opposite directions" presented by J. Friedman.[5] Huge rents from natural resources allow authoritarian rulers to stay in power and suppress the opposition. These rents also helped rulers shield themselves from the opinions and criticism of the international community. This argument can find numerous examples, including Venezuela, Iran, and Russia, argues Friedman.

The argument that oil impedes democracy is widely supported by scholars. For example, Ross argues that the effect of oil wealth is authoritarian and is not limited to Middle East; the democracy has impediment in such states through three mechanisms – "rentier state", repression effect and modernization effect[6]. Expanding on Ross argument M. Herb finds out that rentierism can have a negative impact on democracy. However, the effect of rentierism, as well as the effect of oil-dependency, is significantly less than the impact of region, Muslim share of population and income variables impact on democratic devel-

[3] Exports other than resources. Export-led growth economies considered those countries which employed the approach of expanding high technology exports (such as Japan, Asian tigers, China).
[4] Sachs, Warner, 2001
[5] Friedman, 2006
[6] Ross 2001

opment[7]. It was also statistically found that large discovery of oil hinders consequent democratic development for the next 30 years[8].

C. Boix, the author of recent democratization literature, holds similar view on the prospect of democratic development of oil-rich countries. Although the goal of his research is not to explain the regime evolution of resource-rich countries, but rather general theory of democratization[9], his theory has important contribution to the literature – the capital mobility variable. Boix predicts countries to be authoritarian when the capital is fixed assets: mineral resources (oil) and agriculture.

The resource-related literature predominately says that the existence of those resources determines the country's fate of regime transition. However, if we look at all of the countries that are resource-endowed (and by resources we primarily mean oil and gas), besides the group of consolidated democracies of developed countries, headed by Norway, there is a group of non-Western countries that are or have been pure or electoral democracies (such as Mexico, Venezuela, Brazil, Russia). Thus, the mere existence of the resources doesn't mean that the country will be authoritarian. This has inspired scholars to explore further the effects of natural resource endowment and develop the alternative theories. There are two significant works in this group of the literature: one of T. Dunning exploring political effects and Pauline Luong and E. Weinthal on economic effects of resource wealth.

T. Dunning's careful examination of mainly Latin American cases illustrates that vast endowment with resources can actually promote a democratic form of government. Specifically, the rents provided by the resource sector can be a buffer between elites and the general population that prevents a redistributive conflict. Although Dunning does not deny the possibility of an authoritarian outcome, the effect of resource wealth is contingent on the extent oil plays in a country's economy; if a resource-abundant country is resource-dependent (high resource to GDP ratio) it is more likely to be authoritarian than the one which is non resource-dependent (low resource to GDP ratio). Another important variable is the private sector (country industry besides oil sector) being equal or unequal (distribution of wealth equally or unequally

[7] Herb 2005
[8] Tsui 2006
[9] Boix finds that economic equality and capital mobility are the factors that contribute to democratization

distributed among the citizens). Authoritarian outcome is more likely to take place when a country is resource-dependent and the private sector is equal, while a democratic regime is more likely to emerge when a country's economy is not completely dependent on oil and it has an unequal private sector (in the latter case oil revenues will play a role of buffer in redistributive political tensions)[10]. Therefore, natural resource revenues can decrease taxes and simultaneously decreases the pressure from the poor, making democracy a more likely outcome[11].

In addition, P. Luong and E. Weinthal also reject the claim that mineral wealth leads to negative economic and political outcomes. In a comparative analysis of post-Soviet cases they have argued that resource wealth can lead to strong economic institutions, but only if the resources are privately owned. Private ownership contributes to fiscal institutional development by preventing government overspending. This reduces citizens' expectations of wealth distribution, replacing them with redistributive efforts instead, and increases mutual need of government and private sector cooperation[12].

If we look at the country-specific literature, there is no consensus regarding what effect resources have in Russia. Dunning acknowledges that for Russia, his theory doesn't hold; despite having preconditions for democratic development, it turned to a more authoritarian path[13]. Boix says that being a part of former USSR is one of the factors that impede the democratic development in the region[14]. Y. Kim argues that resources negatively affect macroeconomic stabilization, quality of democracy, industrial politics and international relations of Eurasia[15].

Luong and Weinthal illustrate that Russia is not the subject to resource curse due to its' private ownership and control of resources it managed to have strong fiscal institutions (also that a positive impact on political institutions may take place). D. Treisman also does not support a negative view of resource affect on political regime in Russia: oil price is not the major factor that can explain the negative

[10] Dunning 2008, p. 16-19
[11] Dunning 2008
[12] Luong and Weinthal 2010
[13] Dunning, 2008, p. 286.
[14] Boix 2003
[15] Kim 2003

shift in the political development in the mid 2000's in Russia, according to his findings. His findings are that oil has negative effect on democracy in poor and lower-middle income countries from the 1980's, but it also depends whether oil discovery came before or after country industrialized (in the latter case oil will have a minor impact on democracy), thus, in Russia oil can either promote or impede the democracy[16]. At the same time, oil factor is not the only predictor of regime evolution path - most of authors highlight underdevelopment of institutions and super-presidential system as the main characteristics of the regime[17].

As for another case in my study, Venezuela is considered an outlier by most of scholars as the oil wealth and democratization do not go in directions predicted by the theory of "resource curse", it went in rather opposite direction for most of the 20th century. T. Dunning built his theory on this case as an outlier to resource curse theory.

The widely accepted view is that oil industry has mediating effects of societal tensions in Venezuela (by providing buffer between elites and poor)[18]. Moreover, the state initial role was to distribute those oil revenues among citizens, making it a mediator between foreign oil companies and Venezuela's population[19]. Oil was the base for the economic growth and middle class in Venezuela for decades. In the 1990's with the oil prices plunging, the disappointment rises in the society due to poverty rate increases. The disappointment was mainly due to the belief of citizens' entitlement to the national oil wealth (many didn't realize that the revenues were shrinking)[20]. Thus, the oil wealth was fueling Venezuela's economic and political development, while its decline led to deterioration in political structures - the effect of resources in Venezuela is very different from other resource-rich countries.

Venezuela is an interesting case because despite chronological coincidence of industry nationalization and democratization, which can go contrary to my argument, the government did not acquire full control of the hydrocarbon industry; it didn't happen until the new constitution, new hydrocarbon law and

[16] Treisman 2010
[17] Remington 2012, Koltsova 2006, Marsh 2002, Robinson, 2000, Hahn 1996
[18] Dunning 2008, Ellner, Hellinger 2004
[19] Coronil 1997
[20] McCoy, Diez 2011

the oil industry strike under Chavez. Importantly, T. Dunning theory cannot explain why a once stable democracy will slide into authoritarianism.

Corrales, the author who looked closely at political economy of Venezuela's regime, argues that Chavez was able to change the regime direction due to obtaining political control of national oil company and "erosion of checks and balances imposed by it otherwise"[21]. He highlights Chavez obtaining control of political and economic (hydrocarbon sector) institutions allowed him to implement his populist policies. Author states that the regime is "institutionally cursed".

As far as the ownership and control institute concerned, Luong and Weinthal mention the possible positive relationship between ownership structure and political institutions, but they do not explore this subject in depth[22]. Treisman argues, referring to Luong and Weithal, the importance of whether the industry is state or privately owned: private ownership will cause the government to bargain with the private sector resulting in a more democratic form of government[23]. Corrales illustrates how extending state control over industry coincided with regime's slide into electoral autocracy[24]. T. Dunning does mention that the ownership of resources might matter, but he considers it as insignificant, although acknowledging the possibility. However, I believe industry control can be an important variable in explaining the evolution of the regime, especially the backslide.

There is also a group of literature I use for developing my case studies, but as it is mainly descriptive rather than theoretical, I will refer to it for historical, factual and survey information (Russia's Oil Supply, The Political Economy of Russian Oil). And similarly for Venezuela, I will use the literature that can provide the facts on economic development and effect of oil[25].

Therefore, despite the fact that the topic is well-researched, most of the literature still misses the outlier cases, or if it explains it, it doesn't explain the whole phenomenon and variation of variables with-

[21] Corrales 2011, p. 6
[22] Luong, Weinthal 2010
[23] Treisman 2010, p. 95
[24] Corrales 2011
[25] Boue 1993, Hausmann 2003, Salazar-Carrillo 2004, Tarver, Frederick 2005

in one case. I would like to research the arrangements of oil and gas industry management, the nature of exploitation and its' effect on the regime across cases from two different regions.

2 THEORY

Although there is previous research on the subject of oil-rich countries most of them do not look specifically at the dynamics and who is controlling the resources, the connection between resource control type and the regime evolution has not yet been traced.

The primary line of reasoning of the argument is that when independent actors own the resource wealth[26], they become an influential class and contribute to institutions' establishment that can hold government accountable. The state no longer has unlimited access to the oil wealth and thus has fewer resources for its redistributive efforts (to avoid having people pay their taxes) and less power to impose decisions without its citizens' approval[27]. Hence, liberalization of hydrocarbon industry can play an important role in a country's democratization, while state gaining control of the industry can contribute to regime becoming more authoritarian.

As far as regime is concerned, there are various definitions of democracy and consequently autocracy. For this research, I am going to use the definition of a Schumpeterian, procedure-minimum definition of democracy, with requirements only for the formal institutions. Autocracies, therefore, are the regimes which do not have those formal institutions.

I'd like to distinguish "electoral democracies" from "electoral autocracy". For example, Russia in the 1990's is a classic example of an electoral democracy as it has elections and gives its people civil liberties and right to vote, but state doesn't always protect their citizens' rights to the extent that it should as a democracy. In the 1990's Russia was considered democratic, yet the government failed to be responsible and accountable to its citizens (frequent violation of rule of law, failure to provide security and manage country's economy). Hence, electoral democracy is not a pure democracy, but it has institution in place for its' citizens.

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[26] While every country decides for itself whether it prefers to have its oil and gas resources owned by domestic or foreign actors, domestic private actors will have more influence on domestic political and economic institutions than foreign ones.

[27] This argument was applied to economic institutions by Weinthal and Luong, but we can apply it for political ones as well.

In contrast, electoral or competitive autocracy is the regime where a minimum of institutions make an appearance of democracy, but in fact the rights of the citizens are often violated and such institutions as election do not function properly. Levistky and Way, for example, define competitive authoritarianism as the regime when the adult broad suffrage exists, but a few of the components are missing: fair elections, civil liberties, and an even playing field[28][29].

What explains the evolutions of the regime, its gradual change from authoritarianism to democracy and back from democratic or electoral democracy to competitive authoritarianism? Why, over a decade, the government becomes able to concentrate the political power to exercise its will over the institutions? To respond to this question, I am going to look at the process of regime evolution rather than the regime change, over the certain time period.

There are several possible explanations for this: historical, sociological, structural, institutional, economic and constructivist; I will focus on the economic one as I believe this is one of the plausible explanations. I argue that liberalization of industry played an important role in the countries' democratization, and liberalization of the mineral resource industry, creating institutions that can mitigate the effects of oil revenues.

The lines can be blurry in defining the regime of resource exploitation similar to defining democracy and autocracy. In case when ownership is private, government can secure the majority of company's shares, which makes a company a joint venture. In addition, in case of joint venture government can be widely involved in company's operations; therefore de jure private company is de facto closely connected to the state (Gazprom in Russia). Or vice versa, de jure nationalized industry can be run as a private company, without public participation (pre-Chavez PDVSA).

It can be tricky even if it's de jure state-owned: in some cases, state has full rights for the exploration, transportation, refining, but it signs the contracts with private, usually foreign companies, for certain stages in this resource exploitation process. In this case resources still belong to a state company, and

[28] Levitsky and Way, 2010, pp. 365-366
[29] Even playing field – when incumbent does not restrict the opposition's ability to compete.

not to its' contractors. Very often we can find a type of mixed ownership when the state company owns 50 or 60% of the shares and the rest belongs to the private sector. In this case, as the sector is not de jure nationalized, but rather privatized and owned by a variety of companies, it can be seen as somewhat liberalized regime of resource exploitation.

Therefore I define my independent variable as independent or state controlled, not only by ownership type. By independent hydrocarbon resource industry I refer to privatized industry's assets, opened market for participation to a wide range of actors (either domestic or foreign or both) and industry run by independent Board of Directors. I define state control of resources as connection of the state to the resource industry (by executive branch appointing Board of directions), whether it interferes in the operations, what share of the market national company has, and whether the state owns resources de jure.

Therefore, we have two models of hydrocarbon wealth control: independent and state – what are the key mechanisms that make these forms of ownership impact political regime evolution differently? How can private or independent control type contribute to democratization or at least moderation of possible authoritarian regime outcomes?

In Model 1, independent hydrocarbon resources contribute to democratization through the following mechanisms: First, private or independent factors can prevent government from distribution of wealth (they are forced to rely on redistribution through taxes rather than distribution of externally-derived rents); the government cannot distribute the resource wealth to the citizens the way it would benefit the incumbent. The wealth, which doesn't automatically go to the state, does not create a buffer that will prevent citizens from demanding accountability from their government. The income from oil and gas that is absorbed by private companies gives only partial return to the state in form of taxes. The state therefore cannot count on this type of income and benefit from its revenue distribution. It has to generate additional revenue by taxing its citizens in return providing them with a form of representation of their interests in the government. Thus, in this model the government can be held accountable by its citizenry.

Moreover, private and independent sector can bargain and negotiate with the government. Paying taxes they demand in return protection of their property rights. Government is not interested in capital

fleeing the country; therefore it agrees to establish institutions that will protect the rights of owners and industry initially, but eventually it contributes to establishing the rule of law and democratization.

Apart from the economic leverage, Model 1 can also give a political leverage over government, eventually leading to a country's democratization. Private or independent companies have resources to fund independent media, investing in social programs and organizing opposition[30]. By supporting the independent media and investing in socio-economic programs, the resource sector can contribute to higher awareness and education level of population, economic growth of the area, which according to modernization argument, will eventually lead to democratization.

The liberalization of the sector can contribute to the democratization process or to strengthen the existent democratic political institutions. Whether they occur before or after the regime change chronologically, they can have an impact on the regime's evolution process.

How concentration of state control over industry affects political power disposition? What changes in model 2, when it is state-controlled? When state obtains direct access to resource revenues, it is able to distribute the revenues of the sector without having to tax its citizens. States can manipulate the industry to achieve its goals domestically (social programs) or internationally (oil and gas supply) by distributing the wealth, using the hydrocarbon sector as a leverage. With both socio-economic programs and balancing foreign policy regime is able to gain more legitimacy among its citizens, cementing its position in power. By directly controlling the industry, the state can get rid of checks that would be otherwise imposed on it by the independent industry owners. Moreover, without resources, opposition is less able to challenge the incumbent.

It is important to note that distribution and redistribution are two different mechanisms. In the former the state distribute the income it receives among citizens, while in the latter, the state receives a portion of income from one group of citizens and transfers it to the other. In case of distribution all citizens are entitled to the wealth, while in redistribution state decides on tax rates and allocates money to economically disadvantaged groups. .

[30] I assume that private owners will invest part of their wealth in these programs, not just self-enrichment

The redistributive process can be more contributive for democratic institutions development because of the nature of redistributive wealth. Tackling inequality with redistributive polices government picks winners and losers, therefore creates demand for accountability of those who pay taxes. While in distribution government simply utilize income it receives, which can be distribute unequally and benefit less fortunate social classes. Yet in distributive policies government doesn't take the wealth from one social stratum and transfer it to the other. Thus, distributive policies do not create the demand for accountability, which is crucial for democratic governance.

While the government protects interests of the industry the mineral wealth income creates the variety of interests among its citizens, the competition. This can lead to a plurality of views and economic, political interests, which will result in the need of political dialogue. Plurality of interests can result in political parties competing with one another rather than one ruler staying in power.

On the other hand, as C. Boix lines out, redistributive pressures can in fact impede the democracy: economic equality would be better for democratization. In case of economic inequality the conflict between rich and poor is more likely to shift the regime transition in case of political situation change to a violent outbreak[31]. At the same time, in case of economic equality, there wouldn't be an incentive for the public to demand political changes. In contrast, high inequality in the authoritarian regime can fuel the societal tensions eventually leading to political change.

Not having a leverage to manipulate the system to its own advantage, when industry is not state-controlled, government is faced with the popular demand for democratic governance: without resources to distribute or coerce the state has to grant its citizens certain rights. It becomes harder for the state to legitimize itself by providing benefits to people or investing in the industries, legitimizing itself with socio-economic performance. In the model 1there is no buffer between government and the citizenry, having a state accountable to its citizens can make regime more democratic. The possible regime outcomes for this model are democracy or an electoral democracy.

[31] C. Boix 2003, p. 35

In contrast, when the industry is state-owned or entirely managed by the state (model 2), the government decides on the amount of resource extraction, where it wants to sell it and where the income from those resources would go. Therefore, government holds the leverage in state-society relations. This model will contribute to autocratic or electoral autocracy regime evolution as it shifts the power from independent actors to the state.

When we look at the regime's backsliding to authoritarianism, one of the most important factors regime leaders need to acquire is an access to resources, which means imposing control over the hydrocarbon industry. With the change in resource-control pattern the regime begin to move in the authoritarian direction. In other words, without acquiring the resources the de-democratization wouldn't be possible as a liberalized form of resource exploitation imposing certain constraints (mechanisms described above) that prevent it from de-democratizing.

According to T. Dunning's research, countries with nationalized resources (industry owned by the state) can be democratic[32] (he doesn't pay much attention to state vs. private sector variable), as those resources make it less costly for elites to democratize. However, I argue that not only ownership type matter, but rather the degree of the sectors' independency or its' control by the government. The main difference between ownership and control is that the state can de jure own the resource wealth, but it might choose not to interfere in the national company's operations.

On the other hand, regardless of the industry being privately or state-owned, state can opt for control of the hydrocarbon industry. This is a potential difficulty in the theory as the authoritarian state may prefer and seek to impose control over the exploitation arrangements, while democratic state is more likely to liberalize its resource market and let the independent actors control the industry. Therefore, causal linkages between industry's control and regime evolution may go in directions not predicted by the theory: different type of regime may have different preferences and consequently different strategies regarding how to deal with hydrocarbon sector.

[32] T. Dunning 2008

The reasoning behind it is that the authoritarian state needs more resources to exercise its' control over the territory and in order to accumulate it the government will seek options to gain control of resource revenues. In this case, it mainly depends on the strength of democratic institutions in the country, and if previously built institutions are not constraining enough, the state will be able to realize their preferences.

The independent hydrocarbon sector presents an accelerator for the democratic reforms and constraints for the future backslide. It doesn't completely prevent the state from gaining the leverage to acquire the control of resources, but independent control can possess an impediment for the state to obtain control and consequently to de-democratize for a certain period of time. If institutions are not stable enough, the power balance can shift to the state. I have to note here that private or independent ownership makes manipulations to gain access to resources more difficult and contributes to regime keeping some democratic institutions even in the case of state gaining control.

The main theoretical obstacle and challenge for this case study is to illustrate that change in type of industry control happened prior to the regime type consolidation. This is not the regime preferences to have state-controlled industry, but rather a gradual change in independent/state actors in the industry's management leading to the regime's gradual evolution.

The resource wealth has a conditional impact: who controls those resources matter. The presence of oil and gas wouldn't automatically make a country authoritarian ("rentier state" theory). It is contingent upon whether it is controlled by the state or the independent entity. When state is completely in control of the industry (all of the stages of resource exploitation, including operations, is done by the national company), it is more likely to lead to the authoritarian outcomes. If the industry is controlled by the independent entities, in some of which the state might have shares, but it doesn't interfere in industry's operations, the regime is more likely to have democratic institutions.

Hypothesis: The more that hydrocarbon industry is independent from the state, the more the evolution of the political regime will tend toward democratization, while a more state-controlled industry can contribute to a country turning to an authoritarian path of development.

2.1 Research design

The objective of my study is to find interaction between the different arrangement of oil and gas industry exploitation and a political institution's evolution and investigate the impact the arrangement structure has on governance.

My independent variable is going to be a model of hydrocarbon resources control. The dependent variable is regime evolution. I will use Polity IV and Freedom House scores to measure the regime's evolution and historical and economic literature together with the government documents (and other official sources available) for the information on regimes of resource exploitation.

In order to achieve my research objective, I will employ case studies method and answer the following questions through process-tracing to test my theory: what is the regime trajectory? What is the resource control pattern? Were there changes in whether the state/independent actors control the industry, and when were they (they took place before or after the regime change)? Can we see the consequent changes in political system? And the most important, what are the mechanisms of resource control that can affect the government's ability to concentrate political power?

Table 2.1 Theory outline

		Political Regime Evolution	
		Democratizing	Backsliding
Resource Control Regime	Private/independent actors' control	Russia 1990's Venezuela 1958- 1999	
	State control		Russia 2000-2012 Venezuela 1999-2012

The study will be divided in two stages: model 1, hydrocarbon sector being independent, the time period 1991-2000 for Russia and 1958-1999 for Venezuela, and model 2, state gaining control of the industry, 2000 until 2012 for Russia and 1999-2012 for Venezuela (table 1). I choose cases from two regions: former USSR and Latin America, Russia and Venezuela – they both are outliers in sense of the oil

industry impact that is not predicted by most of the theories. The choice is based on the most different systems method: countries are different in their history and culture, socio-economic factors; they do not have much in common but the hydrocarbon sector, and the countries play different roles in the world and regional politics.

Despite the differences, these countries have a similar regime trajectory and large hydrocarbon sector, which makes us pay close attention to the latter. The arrangements of industry management are somewhat similar, despite Venezuela industry being nationalized in 1976; the state did not obtain the control over industry until the presidency of Chavez. In the end of 90's and 2000's state in both countries made attempt to control the industry. At the same time, we see the regime's backsliding for both countries to a more authoritarian path. Thus, systems are different, but they have similar independent and dependent variables dynamic.

I would like to control for several factors that can affect the theory. First is the ratio of oil export to total exports of a country. With ratio of oil export we can see whether the country is dependent on the oil exports and to what degree. T. Dunning's part of the argument: a country, with an economy that is highly dependent on oil will have a different regime outcome than the country that is not as dependent on this source of income[33]. A country that has a more diversified economy would be expected to have more democratic institutions than the one which economy is completely dependent on oil. Russia and Venezuela in this case fit most different system criteria; the recent numbers are significantly different: fuel is 64% of total exports in Russia in 2010, while for Venezuela this number is significantly higher – 93% for 2010[34] (the ratio of oil to total export have significantly grown over time since 1960's). This confirms the case choice and provides the evidence that the ratio of oil exports in total exports may not be the most important variable to explain the variation, at least when hydrocarbons constitute more than half of total exports.

[33] T. Dunning 2008
[34] World Bank data, figure 4.1

I also would like to control for GDP per capita and level of inequality of society . Per capita income plays an important role as well: the richer a nation is, the more likely to have its oil wealth contributes to democracy rather than hinder it. This indicator is very much similar for two countries across last two decades, although Russia ranks higher in recent years (figure 4.2).Level of inequality plays an important role in fueling the redistribution tension when the revenues from the sector are plunging. Russia and Venezuela have historically different levels of inequality: Venezuela has higher income inequality than Russia, yet recently this indicator for two countries have close meanings – 40's according to Gini coefficient (figure 4.3).

The research faces a potential difficulty: endogeneity[35]. For example, Russia had the process of democratization and industry's liberalization simultaneously, as well as Putin's rule and state gaining a control of economy. Because things are interconnected it is difficult to track the direction of the causal arrow. The possible solution for it is the process tracing: for each of the cases see chronologically the chain of the events and find causal linkages between them. Phase of backsliding, model 2 can also contribute to solving this endogeneity problem - without acquiring control of resources it would be impossible for government to gain the control of political system, thus state owning and controlling hydrocarbons contributed to authoritarian regime consolidation. Yet the state had to encounter the resistance from the sector and acquire control using court trial (Russia), or faced a coup against it and had to change legislature (Venezuela) in order to gain access to the resources. Tracking how it happened chronologically (state gain control and then the regime consolidates) will help to clarify the endogeneity problem.

There are number of intervening variables possible: oil and gas prices, political leadership and institutions. Oil and gas revenues can drive the political change; in case of Russia we see the correlation - Freedom house rating becomes "not free" with higher extraction and revenues from hydrocarbon sector. Similarly, the democratic score of Venezuela also drops in the 2000's with oil prices increase. Previous quantitative studies showed that the effect of oil prices over regime is present, but is not the most im-

[35] Democratized state will relax its industry control, while authoritarian state can prefer more state control and state ownership.

portant dynamic (Treisman 2010). Hikes of oil price in 1974 and 1979 didn't result in Punto Fijo democracy decline, the effect was the opposite. In 2009 the oil price due to financial crisis significantly dropped, but it didn't make the regime democratize. Although it might be that the time period of low oil prices was not long enough for a country to change its' political direction.

The second potential intervening variable is political leadership and deterioration of democratic institutions under Putin and Chavez. Both leaders were able to concentrate power around executive branch. Putin united pro-government forces around one party, while Chavez mobilized the population and managed to gain control over the institutions. Yet the control of resources is crucial for both of the leaders.

The institutions, as the endogeneity problem illustrates, is an important intervening variable, Depending on their stability and strength, previously built democratic institutions such as rule of law and strong civil society can interfere in state/industry relations.

As for the alternative historical, social, and structural variables, I do not intend to describe the whole democratization phenomenon and all variables that can be involved; rather, I plan to focus on economic explanation involved hydrocarbon industry to explain the regime evolution over period of time.

3 CASE STUDIES

My research will be structured as follows: two case studies, Russia and Venezuela, will be analyzed in terms of two models of the hydrocarbon industry exploitation arrangements: when it is controlled by independent actors and when it is state controlled, and determine whether they correspond with processes of democratization and subsequent backsliding of political regime. For each of the models and countries I will first look at the historical timeline of the country to determine the time periods associated with each of the models of hydrocarbon resource control, analyze political and economic institutional changes during these time periods, and assess the extent of system democratization or authoritarian backsliding. Then I will determine whether mechanisms predicted by my theory took place and economic institutions had an impact on the political institutions structure. As a wrap up for two sections I will compare the experience of two countries and see whether mechanisms in these countries were essentially similar; hence the theory is generalizable.

3.1 Model one: control by independent actors and democratization

3.1.1 Russia

Political and economic changes in the 1990's

To explain changes in Russian Federation in the 1990's we need to go back to changes in the last years of the USSR existence, "perestroika", and M. Gorbachev as its leader. When M. Gorbachev in 1985 came to the position of General Secretary of the Communist Party of the Soviet Union he realized that the country needed economic and political reforms, which he promised to implement. The society was tired of previous elderly leaders who were passing away one after another and was very optimistic about the new, young, and energetic leader.

The main flaws of the command economy of the USSR, as it became apparent in the 1980's, were that the economy suffered from shortages of consumer goods due to prevalence of the heavy machinery industry, the economic system overall stagnated. The central planning from Moscow, which was effective

in the times of crisis and helped USSR became a world superpower, was no longer effective in the end of the 20th century. Political system with absolute domination of one party also needed to be changed. However, M. Gorbachev speaking about country's democratization and moving to the market institutions didn't have a clear vision on reforms and their implementation. His goal as a leader of USSR was to modernize the state, making it a modern superpower to enter the new millennium. Yet due to inconsistency of reforms, glasnost'[36] brought democratization and separatists ideas to the politicians of the soviet republics, including its core one, Russia.

Most of researchers admit that it was difficult to choose the right path to reform the state and improve the country's capacity. Eventually these reforms unveiled pro-republic's independence forces leading to a completely different outcome than was intended by M. Gorbachev[37] . Aslund, for example, argues that Gorbachev's goal to reform the USSR was impossible and his attempts to combine communism with the market institutions led to further political crisis in the country[38].

Among the reforms, which radically changed the landscape of USSR politics and economics, were glasnost (removal of party censorship on mass media), elections held on the local and state level, end of political persecution of dissident (opponents of the regime), in the economic sphere - implementation of rudimentary market principles in manufacturing such as self-financing, acceleration of manufacturing, in social sphere - anti-alcohol campaign.

By 1989-1990 with reforms not being successful and independence moods in the republics it became clear that the USSR needed to be modernized as a new type of union, and a majority of republics started to negotiate the format of the new union (it was planned to be more of a federation, with more power given to the republics, but still with the center in Moscow). In March 1990 Gorbachev was elected president of the USSR.

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[36] Removal of party censorship, so people could express their views openly, this freed the press and gave impetus to vivid political discussions and pluralism
[37] Aslund, Remington, Iourkova
[38] Aslund 1995, p. 28

However, new forces in the republics didn't support this idea. On 12th of June, 1990, the Russian Congress of People Deputies (legislative body of RSFSR[39]) approved the statement which asserts Russian Federation independence within the USSR. On 12th of June 1991 the first president of Russian Federation was elected for the first time by the popular vote. The independence and national sovereignty ideas started to gain even more weight in Russia when its leader and the president B. Yeltsin came to power.

B. Yeltsin outplayed M. Gorbachev: when Gorbachev was on his vacations in Crimea in August 1991 he got arrested as the attempted coup to restore USSR power took place. The coup was unsuccessful and provoked the spread of radical moods in the society and rapid unfolding of radical reforms, both political and economic. The functioning of Communist Party of the RSFSR and the Soviet Union was suspended in August and November respectively.

Parallel to work on the new format of USSR undertaken by Gorbachev, negotiations on independence deal with the core republics of USSR Ukraine, Belorussia led by Yeltsin took place. Yeltsin succeeded: as the wave of republics proclaiming their independence after the August coup occurred it became nearly impossible to gather republics together under the USSR agenda. The majority of republics (12) in December 1991 decided to organize Commonwealth of Independent States; the organization was created to preserve economic, political, and national security ties between former USSR republics.

Upon the dissolution of the Soviet Union 25th December 1991, fifteen of its' republics became sovereign states. The successor of the USSR, the largest of its republics and its' core, Russian Federation was established as a separate entity on 26th December of 1991.

After the breakdown of the Soviet Union in 1991, the newly independent countries faced the problem of how to run their political and economic systems. All of the countries decided to have a similar political system: presidential system with bicameral parliament. There were fewer similarities between former Soviet republics on how to manage the economy. Russia, for example, decided to employ the "shock therapy" approach and liberalize extremely fast, Belarus' and Turkmenistan decided to save top-down

[39] RSFSR - Russian Soviet Federative Socialist Republic

command economy, others preferred to have a somewhat liberal economy with dominant role of the government (Azerbaijan).

The radical changes of the economic system, stabilization (so-called "shock therapy") and privatization when the country went from government control of prices, goods and services supply and ownership of all assets in the country to completely liberalize the system were planned before the Soviet Union breakup: in October 1991 on the 5th Convention of People's Deputy's (the legislative session) the plan of radical economic reforms was introduced by Yeltsin. Part of the transition to the market economy was already done by the Soviet Union, Abalkin program in 1987, which was an official departure of the USSR economy from socialist dogmas, which acknowledged the role of free prices and competition. Abalkin program was much of the legal breakthrough[40], the implementation of market reforms came after Russia gained its independence.

In the consequent two years the economic and political system of new Russia evolved together. After the breakup of the USSR, Russia's political system was based on the Constitution of 1978 of the Soviet Union; its legislature changed the name from Verhovniy Sovet of USSR (Superior Council of USSR) to Verhovniy Sovet of Russian Federation and the executive branch represented by the President of Russian Federation (rather than president of USSR). Yet the radical changes in the institutional system took place two years after the breakup of the Soviet Union, in 1993, when the political crisis erupted with military-involved opposition of president Yeltsin and the Parliament (who opposed Yeltsin radical form of economic reforms). The crisis resulted in the change of political system, new constitutions[41], a new legislature (bicameral parliament, Duma) and giving more power to the executive branch.

What were the economic and political reforms of 1990's, why they are so important to understand the evolution of Russian state, and why it caused such dissonance in the society and government? Despite

[40] Aslund 1995, p.37
[41] Constitution of Russian Federation, - was a subject to a popular vote and was adopted after the election on 12th of December 1993. It operates as a basic legal document of Russian Federation since then.

the fact that scholars agree on the disastrous effect for the society[42] of the economic reforms of 1990's (Remington, Aslund), they also do not see a viable alternative of painless dissolution of the soviet economic system.

Two pillars of the 1990's economic reforms included stabilization and privatization. E. Gaidar, the economist and part of Yeltsin cabinet draw the outline of the reforms. Stabilization involved liberalization of prices (in January 1992, which triggered inflation), introduction of a two-tier banking system, internal convertibility of the ruble, liberalization of exchange rates and foreign trade (November 1992)[43].

Another part of the reforms which are particularly important for my argument is privatization of state assets, which involves transfer of ownership rights from the state to an individual or a group of individuals. The privatization covered everything from the households scale (apartments, houses, land) to the state enterprises and most profitable sector: natural resources.

The first part of privatization took place shortly after Russia became a separate entity and set a goal of property rights creation, due to the widespread belief in the efficiency of the private-run enterprise versus state-run. In the first wave of privatization citizens used cash to acquire state assets, but this just deepened the inequality gap as very few citizens were able to accumulate the money due to the stabilization reform and 30% inflation.

In the fourth quarter of 1992 it was decided that government will allow general population into property holders by distributing vouchers to the population (this vouchers could only be used to purchase shares in ownership of manufacturing). Despite the effort to distribute assets as broad as possible the shares still ended up mainly in the hands of the directors, managers, and officials close to the enterprise and less in the hands of regular workers[44].

The second stage of privatization was of a different nature; groups or individuals could submit the bid to purchase state assets, which allowed the wealth to concentrate in the very small group of Russia's

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[42] The quality of life sharply decreased, poverty rates shoot up as well as the mortality rates, Remington, for example, compare the socio-economic effect of "shock therapy" economic reforms to the Great Depression in the USA.
[43] Patel, Dhesi 2008
[44] Remington 2012, p. 200

population, so-called oligarchs. They were former communist party members in the central government, individuals with close connections to the government elites, who thanks to their contacts were able to benefit from government reforms[45], as well as former "black market" operators, money-changers, who were illegal before, now were gaining the control of the new Russia's economy.

In the 1995-1996 government took action to sell the state assets through the controversial program "loans for share": short of finances, government accepted the loans from the entrepreneurs (bank owners) by giving away the shares in the state enterprise, and mainly in the most lucrative sector – natural resources, media assets and industries. Originally the government was supposed to pay back its' loan and entrepreneurs were supposed to return the respective majority shares. But the government couldn't pay the loans back due to cash shortages it allowed businessmen to purchase the billion-dollar industries at extremely low prices[46]. This program is viewed negatively due to lack of transparency and is widely viewed as a "massive scam[47]".

Privatization of oil and gas sector

One of the important questions for the new government was how the strategic oil and gas industry will be run, and it was decided to privatize the sector. Although for the oil and gas industry government adopted different scenario for privatization. The government announced the privatization of oil industry assets on 17th of November 1992 with the purpose of "increase the effectiveness of *oil industry* and to ensure to provide for the consumers' demand[48]"; the process itself began in 1993.

According to this legislation, state secured 25% of share on all of the oil companies to be distributed equally among workers, 38% of state assets - to the holding companies (domestic private ownership, with some parts of those assets owned by state), 10% - for sale to the enterprise workers, 5% - for sale to

[45] Politicians benefited from new policies, yet unlike businessmen they couldn't and cannot be open about their income and assets (no official information, but everyone is aware of it). Their personal income and assets are usually disclosed when they are forced to leave their position.
[46] The first to set precedence was V. Potanin with its purchase of Norilsk Nickel for 170 million rubles, which was extremely cheap (Remington 2012, p. 201-203)
[47] Goldman 2008
[48] Presidential decree #1403 from 17.11.1992
http://document.kremlin.ru/doc.asp?ID=93421&PSC=1&PT=1&Page=1

the enterprise management (directors and top management of the enterprise), 3.75% - to the ethnic minorities of Russia's North and employees of oil pipeline transport companies, and 18.25% - for sale on the auction where all citizens have a right to buy its share (with a voucher issued for every citizen). The decree also established a state company "Rosneft'", which was designed to support new structure and management of remaining state assets in the holding companies, until they are completely formed as an independent entity[49].

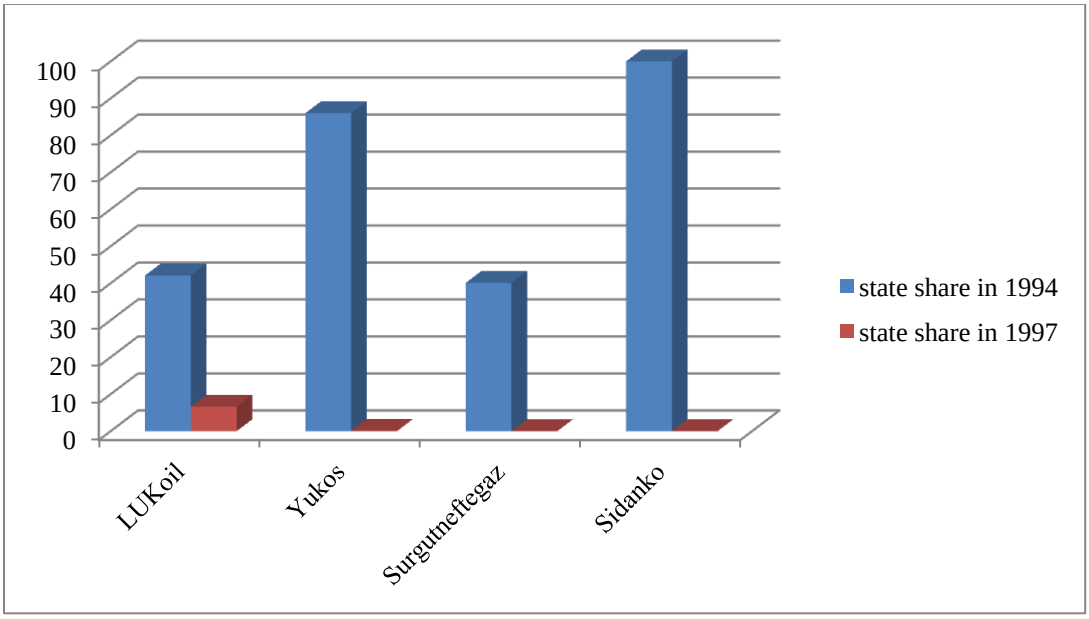
Two types of companies were subsequently introduced by a decree: subsidiaries and holdings, with subsidiaries being subordinated to holdings. As for the holding companies, with this document government secured majority stakes in these companies (in 38% share of the market these holding companies had), thus, some degree of control in industry[50]. The reasoning behind it was that some degree of government control of oil industry is needed due to strategic importance of it. 38% were controlled by the state, whose representatives were sitting on the Board of Directors of new companies, although by 1997 their number was significantly reduced – it was all entrepreneurs on the Board. Those companies that didn't remain the state share did not have state representatives on a Board.

Privatization of oil transportation companies was slightly different as the government wanted to have a controlling stake: control of total amount of shares of Transneft' and Transnefteprodukt originally remained in federal government hands to ensure smooth transition for private oil companies. However, over the 1990's government ownership and control of the assets were significantly reduced: in 1997 government offered 25% of stock to the company's employees and 25% to the investment market[51].

Over the period of 1990's state's remaining shares were significantly reduced in the oil companies as well; in the four major companies (LUKoil, Yukos, Surgutneftegaz, Sidanko) the government share fell

[49] Presidential decree #1403 from 17.11.1992
[50] Lane 1999, p. 23
[51] Lane 1999, p. 35

from 42.1%, 86%, 40.1%, and 100% in 1994, respectively, to 6.6%, 0.1%, 0%, and 0% respectively in 1997[52] (figure 3.1). The volume of production by state companies also significantly shrank (figure 3.2).



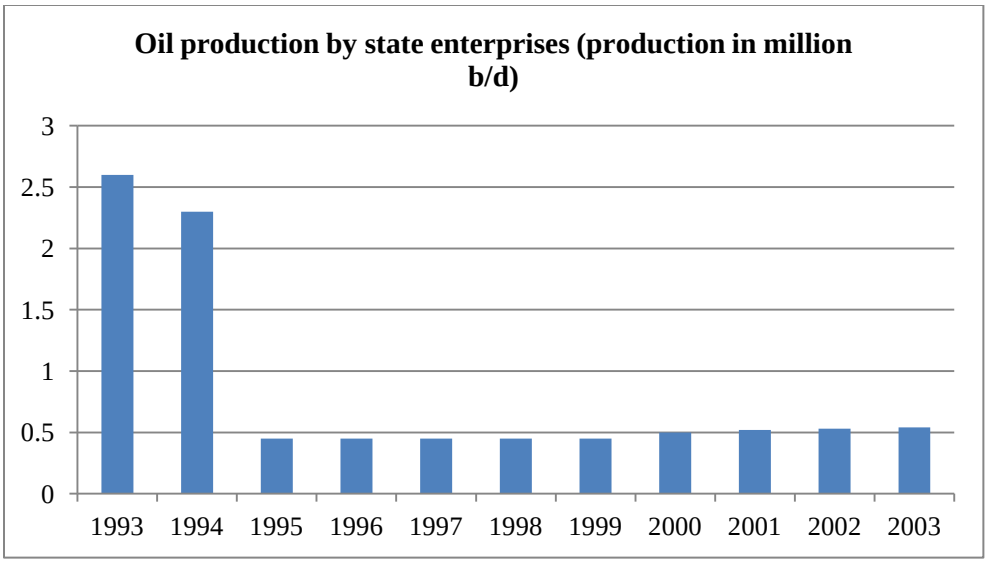
Source: Khartukov, 1997, p. 38

Figure 3.1: State shares change in major oil companies in Russia in the 1990's

Through investment tenders, program "loans for shares" private owners (financial groups, banks and individuals) were able to purchase the state shares in the oil companies for lower prices than its' real market value. The government being short of cash and needing to generate the revenues was willing to sell at extremely cheap prices its share of the oil market.

It is important to note that Russia is one of very few cases of complete privatization of its oil industry to the domestic actors in the 20th century: the industry was also privatized in Brazil (1891-1937), Venezuela (1904-1906), Romania (1924-1944) and Guatemala (1949-1982)[53].

[52] As it is stated in the legislation, the companies who participated in privatization had to be domestic. The foreign companies' involvement has been limited. BP, for example, had to set up a joint venture with Russian companies forming TNK-BP to be able to operate on the Russian market.
[53] Luong, Weinthal 2010 p.121



Source: Grace, 2005, p. 152

Figure 3.2: Oil production by state companies in Russia (1993-2003)

Yet, interestingly, the scholars who researched the privatization process of the oil industry in Russia in the 1990's in depth, D. Lane and I. Seifulmulukov, acknowledge that the ownership of the industry is not equal to its control. Lane conducted a series of interviews with sixty five oil companies' executives, where they had to answer which groups they think are important for decision-making on the scale 1 to 5 (percentage split within each group). They found that in fact the control of decision-making process in the oil companies (Board of directors) according to the executives belongs mainly to several groups: representatives of management (73.6% of them ranked this group influence as 5, the highest), government delegates [54](47.1% of respondents ranked this group influence as 5), financial interests (32.1% gave this group 5 score), large personal shareholders, foreign shareholders, and labor collectives had most of executive rank their influence as 1 or 2 as least influential[55]. They point out that in spite of state assets being privatized, government still had an important impact on the industry. In addition, authors state that they do not foresee consolidation of oil industry assets under the state company[56].

[54] Author interviewed executives of private, as well as the state oil companies; therefore, the result is cumulative for both private and state enterprises.
[55] Lane 1999, p. 37-40
[56] Interestingly, in contrast to their predictions, this is exactly the trend we see in Russia 2000-2012: government consolidates the industry assets under state-owned enterprises (Gazprom and Rosneft'). In the 1990's the belief among scholars that Russian industry will remain privatized was common.

Despite this being said, if we look at comparative prospective at the oil industry in the 1990's, industry became significantly independent from the government comparing to the previous command economy and subsequent decade of Putin's rule. Even if the government retained some control of the industry I argue that just like the democratization, which cannot be called complete in the 1990's under Yeltsin, the ownership and control of the industry was private; yet, government retained some degree of influence on its decision-making process, which was minimized by the 1997 (with most of government shares being transferred to private hands). According to previous research, there are a number of actors (management, state, and labor representatives) influencing the process. The oil industry can be considered as an industry run by independent actors.

For the *gas industry* the privatization looked different as the government decided to preserve its' dominant role on the market and organized a major company controlling the stakes, Gazprom. According to the presidential decree 1333 from 5th of November 1992, like Rosneft' in the oil sector, Gazprom was designed to be a state controlled company in the transitional period for three years, with government retaining majority of shares 40%[57]: 15% went to the employees, 35% were privatized through by citizens living in the areas where Gazprom operates, and remaining 10% was purchased by Gazprom itself.

The important part here is that most of the shares were bought by people who were close to the government, then prime-minister V. Chernomyrdin, who was one of Gazprom directors as well. In addition, once privatized Gazprom implemented the policy when shareholders couldn't sell their share outside of the company, which ensured role of Gazprom as a monopoly[58].

In contrast to the oil industry where subsidiaries were considered owners of upstream or downstream stage, the subsidiaries in gas industry were considered a part of the company and thus had no right to sell or pledge their assets.

[57] Presidential decree #1333 from 05.11.1992 http://document.kremlin.ru/doc.asp?ID=093449
[58] Some private companies were formed: in 1994 Novatek was formed for upstream production (which managed to survive and currently produces 8% of natural gas in Russia), ITERA in 1994 for downstream production, yet all of them operate under Gazprom arrangements.

In 1996, of the 40% remaining in the government hands, 35% were sold to the company by the government in return for company allowing government to interfere in its operations. This document was signed in 1993, but was actually issued as a presidential decree in 1996. It was signed in order to achieve the efficiency of the enterprise: 35% of shares were transferred to the company, but the federal government remained the right to have its representatives on Board[59]. De facto it meant that government gave up its shares but remained the control of decision-making process.

Despite the differences between oil and gas sector privatization process we still can consider the industries overall privatized with dominant independent control in the oil sector and mainly state control in the gas sector.

Political system of the 1990's

According to the new constitution of 1993, three branches of government were established: the executive (president), legislative (parliament), and judicial branches (federal and local courts, several levels for each of these). Legislative branch is a bicameral parliament consisting of Federal Assembly (upper chamber) and State Duma (lower chamber). Despite establishing a three-branch government, the system was designed to be presidential, giving most of power to the executive branch. First president, B. Yeltsin, played a great role in shaping presidential system; he concentrated the power in the executive branch, and when the reforms didn't go in the right direction he blamed parliament, the 1990's system is characterized by president and parliament tensions[60]. President tenure was initially set at five and then at four years with only one reelection possible, but this was changed in the 2000's by V. Putin to 6 years tenure.

One of the bases for the sustainable democratic system is a strong legislature and independent judicial system. However, the executive branch in Russia had and still has substantially more power than the legislature, and the president was granted with more rights than the parliament. The judicial branch in the 1990's was greatly affected by interest groups, alternative power centers (organized crime groups), and thus was not completely independent.

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[59] Presidential decree #599 from 22.04.1996 http://document.kremlin.ru/doc.asp?ID=077380
[60] Robinson, 2000, Hahn 1996

The 1990's are characterized by plural political party system with regular and somewhat contested elections, competition among parties and access of political parties to the media (yet business-connected Yeltsin and his parties enjoyed a much wider and more positive coverage). However, as already mentioned, B. Yeltsin started off his political career playing unfair on the level playing field and continued to do so throughout the 1990's; the idea widely supported among Russians and illustrated by Western researchers as well. Despite not having a united party to support him he always had a coalition consisting of politicians, businessmen, and various advisers to guide and support him. After the victory in the conflict with parliament in 1993, Yeltsin won 1996 elections to surprise of many. In order to do so, he led a great negative campaign: discouraging Russians from voting communist (the race was very close): he used the alliance of media magnates and film producers to achieve his goal[61]. Then to assure a sufficient vote he negotiated an alliance deal with the third party candidate[62]. Having won the elections, he continued to control the parliament changing prime-ministers and eventually placing V. Putin in the prime-minister seat and hand-picked successor in the fall of 1999, giving therefore him an advantage of running the election campaign (media access)[63].

In the 1990's we see great party fragmentation and instability of parties formed (usually they dissolved after the elections, if they do not pass the threshold to get into parliament). Despite the unstable party system, we still can distinguish three main groups: democratic forces (SPS (in the 1990's)/ "Yabloko"), communist, (KPRF) and nationalist (LDPR), with some extreme parties emerging from time to time, but not passing the margin of getting into the legislature.

Media in the 1990's enjoyed the significant freedom compared to the previous and subsequent decades. The "glasnost" policy of Gorbachev lifted the ideological ban and censorship scrutiny over the media. In 1990, the Law on Press and other Mass Media banned censorship, allowed organizations and individuals to establish media outlets besides state ones. On 27th of December 1991, Russian Federation

[61] Interestingly, unlike in the US (where variety of voter outreach is used), campaign in Russia mainly consist of mass media messages, which results in: who controls the media, win the election

[62] General Lebed', who was promised a seat as a Minister of National Defense, but shortly after the election he passed away in the helicopter accident.

[63] Marsh 1999

passed the similar formulation of previous laws on media, according to which "No limitation should be imposed for search, obtaining, producing mass media information or establishing the new media outlets… exception for the cases described in RF legislature…"[64].

In addition, media assets in the 1990's were privatized along with the manufacturing assets. As a result, three media-giants were formed: ORT, RTR and NTV, and each of them present different type of ownership. Overall, media ownership can be state, private, or public ownership, but in Russia the latter type didn't develop. Each of these three major media groups present different type of ownership: NTV – privately owner (by Gussinksiy, media magnate), RTR – state-owned and run and ORT – mixed ownership with half of shares belonging to the state and another half to Berezovskiy (one of the prominent Russian oligarchs)[65].

The ownership and control of media was reflected in the coverage of the Chechen war (Russian' Caucasian breakaway region). The first war from 1994 until 1996 was covered much more unfavorably of Russia's military and federal forces[66] than the second Chechen war of 1999 until 2008, when state controlled the war coverage[67].

Civil society is another component of democratic governance. We can observe an increasing involvement of Russian citizens in the events taking place in their country; they actively participate in referendums and elections. However, historically Russia lacks a social capital, which according to some theories (R. Putnam) is the key for democracy[68]. The country didn't have traditions of collective volunteer actions, despite communist efforts, is not a term understood by population. Moreover, disengagement with government affairs, the notion that government exists separately from people, the tradition inherited

[64] Federal law on Mass Media, published in Rossiyskaya Gazeta http://www.rg.ru/1991/12/27/smi-zakon.html
[65] Koltsova 2006, p. 80-83
[66] The most of negative coverage came from NTV channel, the privately owned one: they were showing the misery of civilians and incompetence of army missing the content of Russia's integrity as a state.
[67] Koltsova 2006, p. 205-224
[68] Putnam, 1994

from the Soviet times continued into modern Russia social system combined with increased apathy because of falling living standards[69].

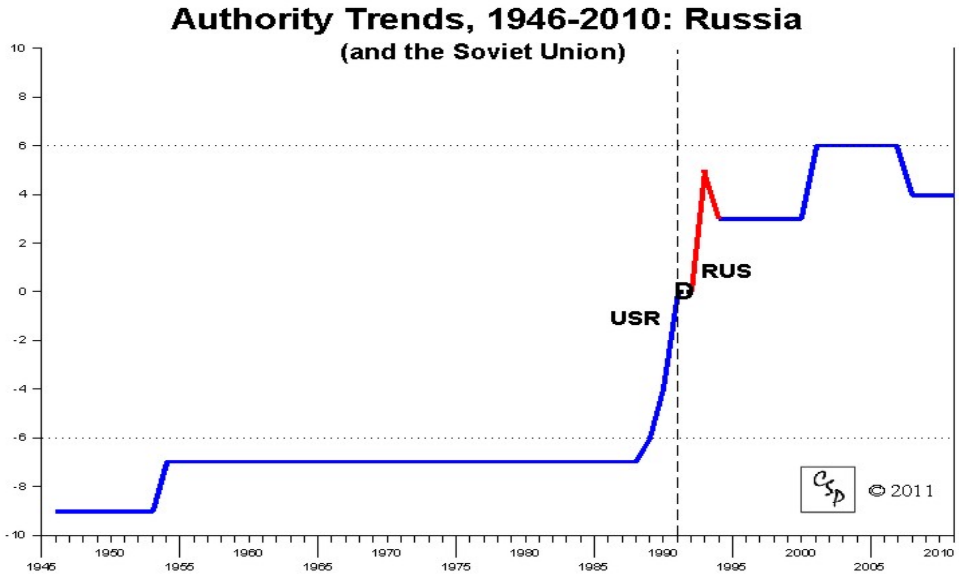
To decide whether or not we can call 1990's Russia a democracy we have to take into account all of these factors. Yet since we employ procedure minimum definition of democracy, we will look mainly at the basic democratic institutions: regular and contested elections, media access and rule of law. De jure Russia was a democracy, de facto an electoral democracy, since even these basic institutions were undermined. In campaigns the incumbent had a tremendous advantage[70], the election results were well-known to be falsified[71], absence of strong multi-party systems and coalitions led to weak parliament, lack of state capacity of that time – to the growth of local organized power groups, which affected to (in)dependence of judicial branch.

Does privatization of oil and gas industry had an impact on democratization process in Russia in the 1990's?

If we look at the democratic score of Russia in the 1990's, it presents an upward trajectory: from 0 to 6 over a period of 1990 to 2001 according to Polity IV (hybrid type, 6 – the border of democratic and hybrid regime), yet a country never made it to the purely democratic type, over the score of 6. As for the Freedom house, Russia becomes partly free in 1991-1992 and stays in this category until 2005. Political rights and civil liberties score 3 initially (partly free), since 1993 the score for civil rights deteriorated to 4 (negative trajectory for the Freedom House) which have to do with 1993 putch, conflict between the president and parliament which led to constitutional changes. The dynamic of the score throughout 1990's is stable at 3 or 4 figures, yet in 1999 score is turning to 5 (which is related to second war in Chechnya and Putin's appointment to the president seat). Were high democratic scores (comparing to previous and subsequent decades) in the 1990's partially a result of liberal economic reforms and specifically privatization of the resource industry?

[69] This is based on my personal observations, my ideas confirmed by Western research of Remington, 2012.
[70] Due to media resources being available since magnates ally with president
[71] In some national republics, which supported the incumbent showed 98-99% voter's turnout record

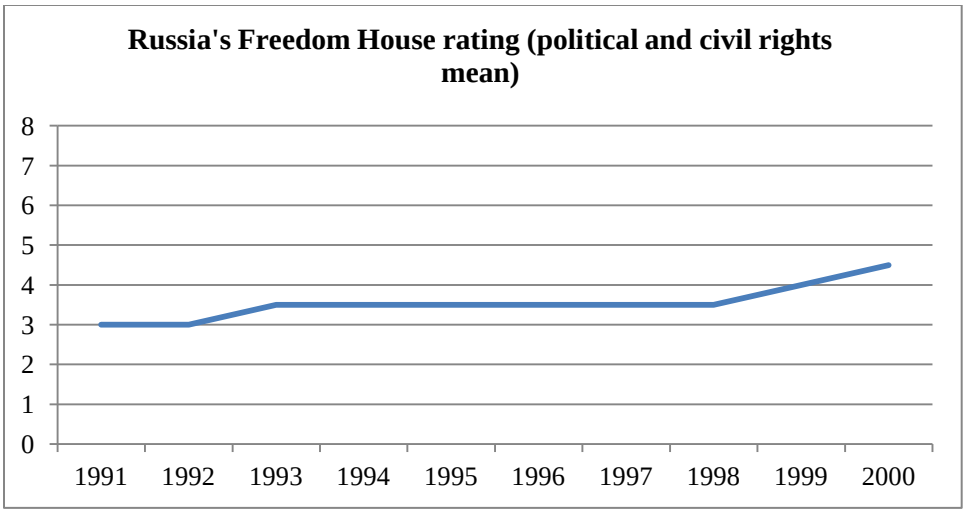
While giving up the major source of its revenues, the natural resource sector the state still had to generate the revenues to cover expenses. The tax system of the USSR was inefficient as it didn't reflect the needs of the liberalized economy and together with privatization reforms in the 1992, tax reforms were also introduced year later. The reforms created a Value-added tax (VAT), modified personal income tax (PIT) and enterprise profit tax. According to this reform VAT equaled 28%, income tax had three brackets tax system, 12%, 20% and top marginal rate 30%, and the enterprise tax set in 1992 at 32%, and in 1994 it was further increased to 37%[72]. However, tax compliance was extremely low.



Source: © Polity IV
Polity IV scores interpretation: from "10" to "6" democracy, "10" for a full democracy, "6" to "9" – democracy; from "6" to "-6" anocracy, i.e. hybrid regime, "1" to "5" open anocracy, "-5" to "0" closed anocracy; from "-6" to "-10" autocracy.

Figure 3.3: Russia Polity IV scores

[72] Stepanyan 2003, p. 17, 18



Source: Freedom House data
Freedom House scores interpretation: "1" to "2" – free, consolidated democracy; "3" to "5" - partly free, "3" – semi-consolidated democracy, "4" – transitional government or hybrid regime, "5" – semi-consolidated authoritarian regime, "6" and "7" - not free, consolidated authoritarian regime.

Figure 3.4: Russia's Freedom House scores 1990's

We can see the government losing its revenues[73] and increasing tax rates, and in the same time, we can see a dynamic development of political system, wide citizens' involvement with elections and referendums. This is consistent with the theory that citizens paying taxes are more willing to get involved and motivated to hold their government accountable.

The important part of democratic period of 1990's in Russia was presence of so-called oligarchs: individuals who managed to accumulate wealth through privatization programs. They became increasingly influential in the 1990's politics, owning the large portion of different industry's assets. Did oligarchs bargain with the government and thus constrain its actions? Businessmen enjoyed beneficial position and had strong influence over government decisions: "loan for shares" program can be assumed to be a result of pressure on the government to sell its profitable assets. Government also created favorable conditions for the oil and gas industry: ruble default in 1998 was beneficial for the hydrocarbon industry and the fact that these crude products were not as limited by trade regimes as another products. Due to the state weakness and having a large portion of resources business they came to be able to impact the government.

[73] General government revenues data available for Russia from 1998 (Model 2, figure 3.13)

However, rule of law, projected by the theory didn't seem to be affected much by the ownership and control institute, the bargaining was mainly based on clientelistic approach rather than solid property rights institute.

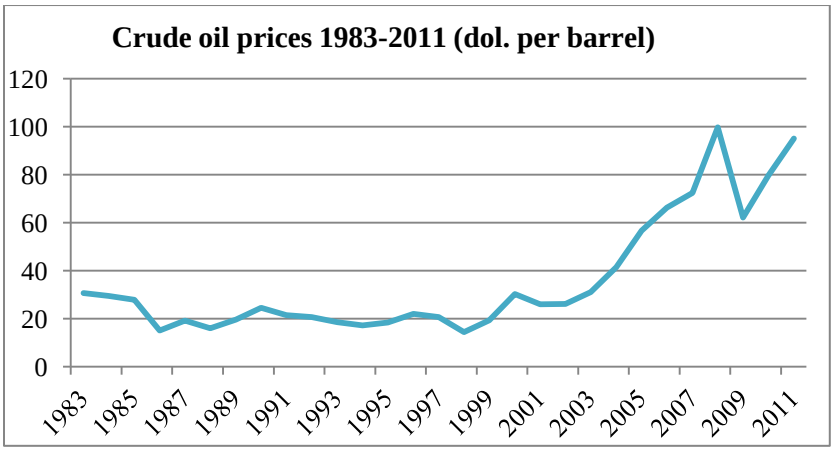
Although the privatization reforms led more to crony capitalism than capitalistic development originally envisioned by reformers, it had some positive effect on the regime evolution. Privatization of the economy led to resource industry, together with many others, to be owned by private actors.. Media owned by private actors (NTV and partially ORT) were presenting different view from the state media, often criticizing political events. The influence of the business led to establishment of the media, which is more revenue- oriented than taking orders from the government and thus different in its coverage.

Because the government did not have enough resources for it to control and coerce, it did not place constraint on the media and non-profit foreign organizations. Although along with advantages, there was a huge downside in the weak state period: due to lack of control in the economic sphere the general population living standard decreased sharply (that's why general population couldn't purchase the shares), the mortality rate rocketed, and the crime rate became unprecedentedly high. The downside of strong business and weak state was the fact that this government cannot establish rule of law and provide the stable institutions needed for democratic governance.

Some of oligarchs who owned large portion of oil companies were able to obtain mass media shares as well (for example, Berezovskiy, having shares both in oil industry and media); in the 1990's media in Russia was much more diversified in sense of opinions than the one in 2000's. Together with Berezovskiy, who owned ORT, Gussinskiy, media magnates, owned another major TV channel, NTV, -NTV was especially critical of the government having the view that media should be independent.

Independent media is essential for voters to obtain unbiased information about the candidates, thus, essential for democracy. Government monopoly in the media market, on the other hand, leads to distortion of the information. Private owners having resources from the oil sector had media companies contribute to providing information to the citizens different from the government company's coverage.

Independent, private ownership, according to mechanisms in the theory, should lead to more socio-economic development. In a majority of the cases, we do not see any major investment of private owners in the economy or social program (1990's were characterized by huge capital flight). Khodorkovskiy (Menatep investment bank and later Yukos executive) presents an exception. He founded the organization Open Russia to develop civil society and improve education, as well as launched some charitable initiative: funding for schools, hospitals, science, and cultural exchange programs[74]. His social program for democratic education and social development can be evidence that hydrocarbon resources in private hands can in fact contribute to socio-economic development and higher democratic awareness of society. Another pioneer of "loans for shares" program Potanin (who was the owner of Sibneft', oil company, in the beginning) established a scholarship named after him, which is given to the most gifted and initiative students in the college.



Source: EIA data

Figure 3.5: Oil prices 1983-2011

Let's consider the intervening variable in the equation: price of oil and gas (figure), which can be an explanation for the democratization period. We can observe that the share of oil and gas exports, commodities price and consequently revenues in the 1990's were less than those in previous and consequent decades. In order to clarify the role of hydrocarbon's price gyration, I will introduce an additional

[74] Remington 2006, p. 158

case in the theory, Azerbaijan. Being countries from the same region, the impact of oil prices should be similar, yet the outcome is different for Russia and Azerbaijan.

The hydrocarbon industry was largely privatized in the 90's in Russia, while in Azerbaijan it remained state-owned. Having low oil and gas prices the regime went on downward trajectory in Azerbaijan, falling into autocratic regime category in 1998. At the same time when Russia had an upward democratic regime trajectory. Therefore, from one starting point the regimes of Russia and Azerbaijan took the opposite trajectories in political and economic institution development. Azerbaijan didn't have mass privatization, like Russia had (and many other post-Soviet countries); the resource industry remained in the control of government. Therefore, the Azerbaijan case can be the evidence that price is not the decisive factor. In addition, the previous research of D. Treisman illustrated that price gyration was one of the factors rather than the only factor that caused deterioration of democratic score of Russia in the subsequent decade.

In the 1990's political and economic reforms unfolded simultaneously, yet economic reforms (stabilization and privatization) preceded political changes (not the breakup of the Soviet Union, but a coup and new constitutional arrangements).

Therefore, we can find the support for all three mechanisms predicted by the theory to some extent; taxes and citizens' involvement in political life[75], bargaining of private sector with government and private owners investing in socio-economic programs. However, rule of law, as predicted by the theory, was not established as government did not have resources to provide that and due to lack of coercive power to prevent alternative centers locally becoming powerful. The rule of law could work if institutions were at place, yet lack of those or incompetence of existing led to some of the potential mechanisms of the theory did not reveal themselves. Private independent actors often used the loopholes in laws to their own advantage, which even more undermined the existent legal system and institutions, already weakened by organized crime and low state capacity.

[75] Yet tax evasion especially by higher tax brackets was common, this can be the reason for low redistributive conflict. The struggle between groups was for ownership of former state assets rather than elites/poor conflict.

3.1.2 Venezuela

Punto Fijo democracy in Venezuela

Unlike Russia, Venezuela didn't have sharp period of discontinuity (civil war, breakup of the country) in the 20th century, yet the country had experienced regime changes: militarist personalistic dictatorships 1908-1935 and 1948-1958, rapid democratization after 1958 and democratic rule until 1998-2002 with Chavez, who brought participatory democracy to Venezuela vs. representative of Punto Fijo, but with him the country's regime started to slide into competitive autocracy category.

Venezuela for most of the second part of the XX century represents a unique democratic experience among Latin American countries. Even when most of countries encountered coups and rapid change of governments and military involvement, Venezuela's democracy remained stable. The stability of democracy over the period of time is attributed by scholars to the important role oil wealth played in reconciling elites/poor conflict.

Upon the end of Perez Jimenez dictatorship with coup d'état in 1958, the system agreement between major parties was established, which was the base for Venezuela's democratic governance for the most of 20th century. Punto Fijo Pact; is the agreement signed by representatives of three major parties, Democratic Action (AD), Social Christian (COPEI) and Democratic Republican Union (URD), aimed at preserving democracy in the country by respecting elections and having the successful candidate to include members of other signing parties in the government.

In addition to the agreement between parties, several documents were signed which also constitute the base of the Punto Fijo system: Declaration of Principles for Peace and Democracy, Minimal Program for Government, Labor-Business Accord, informal assurances to church leaders and Constitution of 1961. Together, with power sharing and reconciliations of previous conflicts, this set of documents established the boundaries between public and private sector of the economy, ensured the position of the Catholic Church, respect for individual liberties and support of USA in the Cold War[76].

[76] McCoy, Diez, 2011, p.1

Eventually, the system transformed into two parties, AD and COPEI, sharing a power, which excluded a large part of population from decision-making; this elitist nature of democracy was part of the reason for political unrest in the 1990's. The system intentionally excluded antidemocratic forces (both leftist guerillas and right-wing militarists), this has provided stability of democracy, although with some violations of human rights[77].

Venezuela's economic policy in 1958-1998

Venezuela experienced a variety of economic policies throughout 20th century; 1960 import-substitution industrialization, investment in large utilities in the 1970's, reforms attempts in 1980's and aggressive market reforms combined with austerity measures in the 1990's[78].

Import substitutions industrialization policy advocates replacement of imports with domestic products and intended to build self-sufficiency by creating a domestic market. Popular in many developing countries in the 20th century (South America, India), it contributed to domestic employment; yet, the industries often were neither efficient nor competitive due to not being exposed to the world markets.

Venezuela economic development in the second half of the 20th century was dependent on the government and specifically the enormous oil resources. Venezuela stood out from its' neighboring countries with the balance of power between the parties, strong labor and business institutions to negotiate social conflicts, political competition and free press, economically-wise Venezuela had the lowest inflation from 1950 until 1980 and a AAA credit rating in the beginning of the 1980's[79].

Oil was the chief reason for such sustainable political and economic development both when the oil prices boomed, as well as the reason for political and economic crisis in the 1990's when the prices fell (figure 3.5). Venezuela's economic growth was largely dependent on the oil industry; it had accounted for 50% of export earnings and 75% of government budget in the 1960's and 1970's[80].

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[77] Alvarez, 2011 p.1 http://www.freedomhouse.org/report/countries-crossroads/2011/venezuela
[78] Corrales 2011, p. 6
[79] Hausmann in Rodrik,2001, pp. 245-246
[80] McCoy, Diez 2011

The 1960's and 1970's are mainly characterized by its' emphasis on publicly owned basic industries, nationalization and restriction on foreign investment, expansionary fiscal policy (government spending exceeds tax revenues). In 1980's some efforts to control government spending were undertaken: price liberalization and some trade liberalization, while maintaining import controls. And finally in the 1990's economic policy of Venezuela is characterized by clear economic liberalization efforts: freeing interest rates and prices, liberalization of trade and foreign investment, and opening of oil industry for private investment (1996-1998)[81].

Economic policy in Venezuela went from nationalization of the oil industry in 1976 and extensive government spending to liberalization efforts in the 1990's in the attempt to generate revenues and balance the budget.

Hydrocarbon industry organization

With the discovery of oil in Venezuela in the beginning of the 20th century the resources were exploited by foreign companies. First attempt to control resource wealth was the Hydrocarbon Act of 1943 which established the rule according to which profit from oil has to be split in half between the government and the oil company. In 1958 introduction of a profit-sharing arrangement took place allowing government to check cost and prices information. Government take on oil revenues increased up to 67% and national oil company CVP was established, designed to oversee the hydrocarbon industry. The company was formed with the goal of learning about the oil industry and to catalyze Venezuelan-run oil operations[82].

In 1962 the government established a Coordinating Commission for the Conservation and Marketing of Hydrocarbons to oversee marketing aspects of concession operations. In 1971 the government sets a reference prices and the same year the administration of Rafael Caldera introduced Hydrocarbon law,

[81] Hausmann in Rodrik, 2001, pp. 269-270
[82] Hults, p. 424

according to which resources were owned by the state. In 1973, CVP became a monopolist on domestic market [83].

In August of 1975, the Law reserving the production and marketing of hydrocarbons to the state with article 6 established that the Venezuelan executive is enable to "create an enterprise for the regular and efficient development of …hydrocarbons" and assigned one of these enterprises to oversee the activity of others. Based on this article the executive decree 1123 on 30th of August 1975 established a national company, Petroleos de Venezuela, S.A. (PDVSA). Upon implementation of the law, on the 1st of January in 1976 22 concessionaires operating in Venezuela gave their places to 13 national operation companies and CVP. Interestingly, companies were allowed to use their existing management structures so that process of nationalization will not disturb the operations[84]. In 1958 the laws and fee system was targeted at hiring local workers for the private oil companies. By the time of nationalization, most of workers were Venezuelan[85]. As for the foreign owners, they received $1.16 billion compensation package and were allowed to have contracts for technological assistance and equipment[86].

From its very creation PDVSA was designed to be a national company, which is run like private, profit-oriented company insulated from political pressures. However, it had to coordinate its actions with the Energy Ministry. The industry was nationalization, but in the same time it didn't mean the government controls the industry rather it was domestic actors acquiring control of their resources (comparing to previously foreign owned).

Its initial design was made with the purpose of preventing politicians from meddling in operations, changed since 1976. Initially the control over operations was decentralized among national companies, but it had one Board headed by a president who was directly appointed by the executive branch. Access to oil funds was managed not by the director's Board president, but by the budgetary process. Overtime it was changed: opening to foreign investment in the 1990's, the industry had to change its management

[83] Boue 1993, pp.13-17
[84] Boue 1993, pp. 17,18
[85] Hults, p. 424
[86] Tarver, Frederick 2005, p. 125

structure. Instead of numerous subsidiaries the independent units were introduced (production, services, finance, gas and etc.). The board of directors acquired a much more important role in company's functioning and the Board president became both chairman and CEO of the company (while previously he could hold chairman position only)[87].

A liberalization effort of the 1990's reached the oil sector as well; in order to increase company's capacities it was decided to attract foreign companies to the industry in the 1989. A Houston-based exhibition was set to promote the investment of major oil companies in PDVSA. Main stages of "oil sector opening" took place in 1991, 1992 and 1997, it was targeted to expand investment in extra-heavy oil in Orinoco belt, develop older fields and increase production in high-risk areas through risk exploration and profit sharing agreements[88]. Over the years of 1991-1997 a number of operating agreements and strategic partnerships with foreign companies were signed and they were allowed to manage specific oil fields. This opening of the hydrocarbon industry can be explained: the government was seeking opportunities to generate revenues to cover the debt; it was in line with the financial program approved by IMF.

Economic decline and political turmoil of 1990's

After the seemingly magical windfall of oil revenues in the 1970's the oil prices started to plunge in the late 1970's and early 1980's, and so did Venezuela's economy. High oil prices allowed the government to expand its role in the economy yet when the revenues plummeted: it ended up with huge debt and an inability to commit to its previous spending level. The sudden shrinking of the state expansionary fiscal policy and implementation of austerity measures led to dissatisfaction in society and to the political unrest of 1990's.

At the same time some measures to prevent government overspending, which can lead to the inflation, were taken even in the 1970's: establishment of Venezuelan Investment Fund, which gave loans to other Latin American countries[89]. President Lusinchi took measures to tackle economic crisis in 1984:

[87] Corrales 2011 p. 77
[88] Hults, p. 429
[89] Tarver, Frederick 2005, p. 125

ensuring oil industry self-sufficiency, reducing national deficit, achieving equity in balance of payments, and providing stimulus for agrarian and industrial production[90].

The second presidency of Perez in 1989 brought about the Economic Adjustment Plan, according to which economy had to be restructured and public spending reduced. This "shock treatment" caused dissonance in society: since 1958 government were actively intervening in the economy and were protecting national industries. Yet Perez administration's reforms changed it. Due to enormous foreign debt government had to borrow money externally from the IMF which required tough fiscal measures. The austerity package reduced government subsidies for public transportation, increased the cost of utilities and gasoline. Government also had to privatize some troubled state, owned enterprises in an effort to balance the budget. The austerity measures which in addition to spending cuts caused galloping inflation (between 1989 and 1991 accumulative inflation reached 150%[91]) were proved to be unpopular. These economic liberalization reforms are considered to be an underlying reason for political instability and decline in state capacity[92].

Besides oil revenues explanation for economic growth and decline of Venezuela economy in the 20th century, there are some other factors suggested to influence this dynamic: external shocks (external interest rate, even when the country is not dependent on attracting foreign capital). Hausmann notes that in the 1960's the economic growth continues despite lower oil prices and stops in 1978 while oil prices decline only in 1982. Along with wasteful public spending, which attributes to the economic decline, author emphasizes the role of private sector phenomenon, an interest rate, which also played an important role in economy's plunge (it caused further decline in capital and output per worker)[93].

First signs of the political unrest came to surface in 1989 with large spontaneous protest in Caracas (caracazo). The rise of gasoline prices and transport fares resulted in protests throughout the country. On the 4th of February 1992 mid-ranking military officers of the Bolivarian Revolutionary Movement at-

[90] Tarver, Frederick 2005, p. 132
[91] Tarver, Frederick 2005, p. 140
[92] John 2005
[93] Hausmann in Rodrik,2001

tempted a coup against President Perez. The coup was unsuccessful and its' leader, Lt. Colonel H. Chavez was arrested.

The power-sharing among two parties and exclusion of other forces out of the system combined with economic crisis, which was blamed to the current regime, made many Venezuelans dissatisfied with the established system, - societal polarization came before political polarization[94]. The poverty rate in 1990's was 65% comparing to 25% in booming 1970's years[95].

Reasons for dismantling of Punto Fijo include a range of factors[96]. First, structural causes: oil dependency of the regime, economic decline (GDP figures of 1990's was only 80% of what it was in the 1950's[97]), government mismanagement of the economy and Asian financial crisis of 1997[98]. Second, political, institutional factors: centralized system of Punto Fijo, institutional decay, which opened the way for charismatic leaders, distribution crisis, which led to the representative crisis as many groups felt excluded (McCoy, Myers); decentralization of 1990's (when other than AD and COPEI parties were taking state offices) and party fragmentation (weakening of AD and COPEI) (Corrales). Factors also include political culture factor: utilitarian culture produced by oil-fed state, which caused choice of distributive over redistributive policies and tutelary nature of Venezuela's democracy with achieving political stability through consensus-based centralism, AD and COPEI also failed to learn new strategies and adopt to new demographics (McCoy, Myers).

Elections in 1998 illustrated clearly that people of Venezuela were longing for the radical changes. Other candidates, Henrique Salas Romer and Irene Saez, did not get the majority vote in part due to their endorsement by older parties AD and COPEI; Hugo Chavez won with 56%[99]. Initially, his base consisted not only from the "have not" part of the population, but also middle class and intellectuals.

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[94] Ellner, Hellinger 2004
[95] McCoy, Diez 2011, p. 3
[96] McCoy, Myers 2004, pp. 266-275, Corrales 2011, pp. 4-5, McCoy, Diez 2011, p. 3
[97] McCoy, Myers 2004, p. 2671
[98] Corrales 2011, pp. 4-5
[99] McCoy, Diez 2011, p. 5

The economic decline and institutional arrangements combined with population dissatisfaction with the state of Venezuela's economy and previous government policies opened the way for H. Chavez in 1998 elections[100].

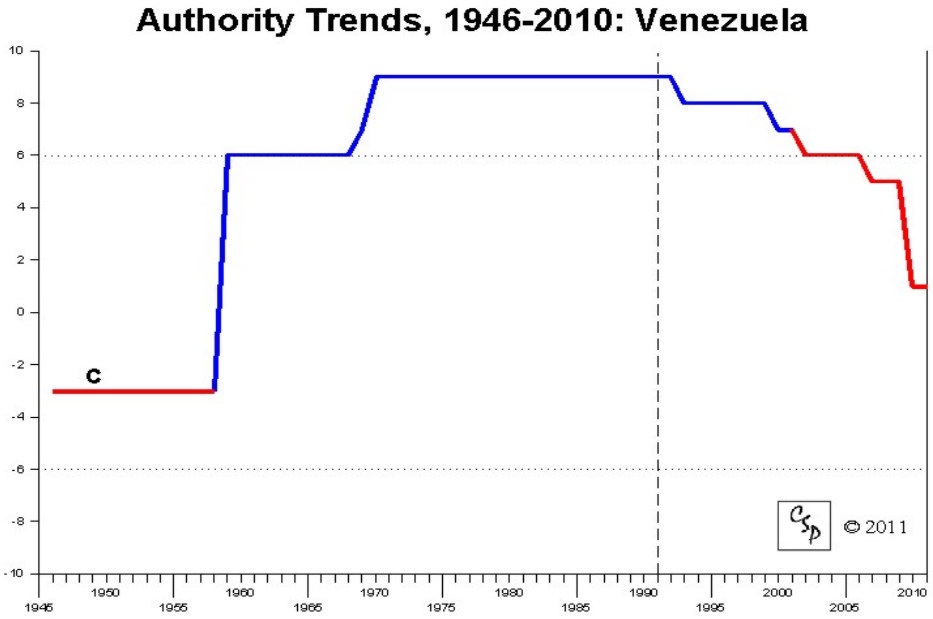
Did independent actors running the oil industry contribute to the stable democracy in Venezuela from 1958 to 1999?

In contrast to the first case in this model, Russia liberalization in the 1990's, Venezuela had different path of regime development and different pattern of oil industry management. Yet, these two cases have in common the fact that the industries in Russia in the 1990's and Venezuela 1976-1990's were run mainly by domestic independent actors.

Russia departed from communism and state-owned enterprises and Venezuela departed from dictatorship with oil owned by foreign private capital. This presents two different models of oil wealth management and supposedly different effect on regime evolution. In post-authoritarian regime transition, Russia completely privatized its' industry and Venezuela nationalized its resources. In the same time, both of regimes significantly democratized. Therefore, we cannot attribute democratization to the mere ownership of resources, but rather to resource control that had an impact on regime evolution.

Foreign/domestic actors dimension was explored by Luong and Weinthal in a context of private ownership of hydrocarbons in post-Soviet countries Russia and Kazakhstan and the positive impact domestic ownership factor has on economic regime formation[101]. This can be applied to the political regime formation; domestic actors independent from the state can contribute to the democratization of a regime.

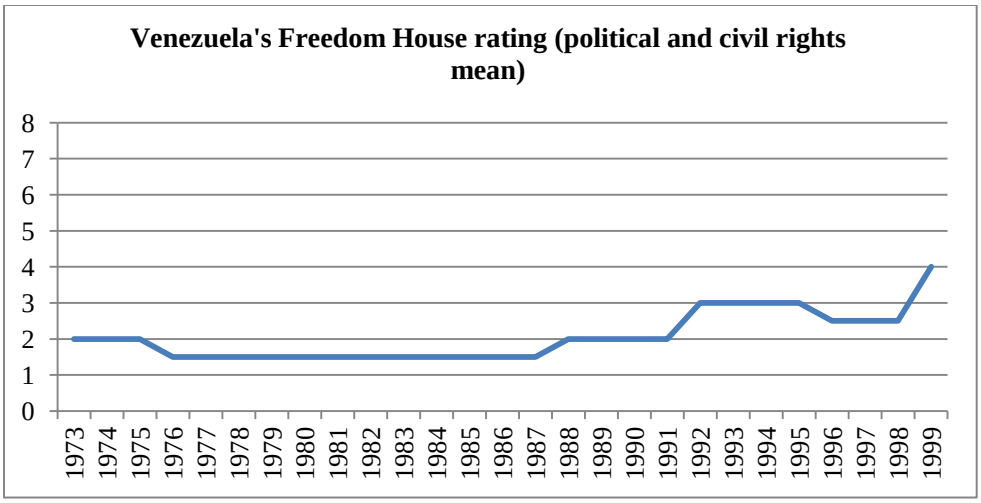
[100] H. Chavez was released by president Caldera.
[101] Luong, Weinthal 2010



Source: © Polity IV
Polity IV scores interpretation: from "10" to "6" democracy, "10" for a full democracy, "6" to "9" – democracy; from "6" to "-6" anocracy. i.e. hybrid regime, "1" to "5" open anocracy, "-5" to "0" closed anocracy; from "-6" to "-10" autocracy.

Figure 3.6: Venezuela's Polity IV score

If we look at Polity IV scores (figure 3.6) Venezuela has an upward trajectory of the regime from 1958, then democracy from 1967 until 2002 (coup against Chavez, him gaining control of PdVSA). Freedom house scores indicate Venezuela as being partially free from 1992 until 1995 (coup attempt and political unrest), free in 1996 until 1998 and partially free again from 1999 (Chavez and the new constitution) (figure 3.7). Therefore, if we compare the democratic score of Venezuela with the previous and subsequent decade it indicates that Venezuela was a democracy until Chavez came to power, when the regime started to move in a different direction.



Source: Freedom house data
Freedom House scores interpretation: "1" to "2" – free, consolidated democracy; "3" to "5" - partly free, "3" – semi-consolidated democracy, "4" – transitional government or hybrid regime, "5" – semi-consolidated authoritarian regime, "6" and "7" - not free, consolidated authoritarian regime.

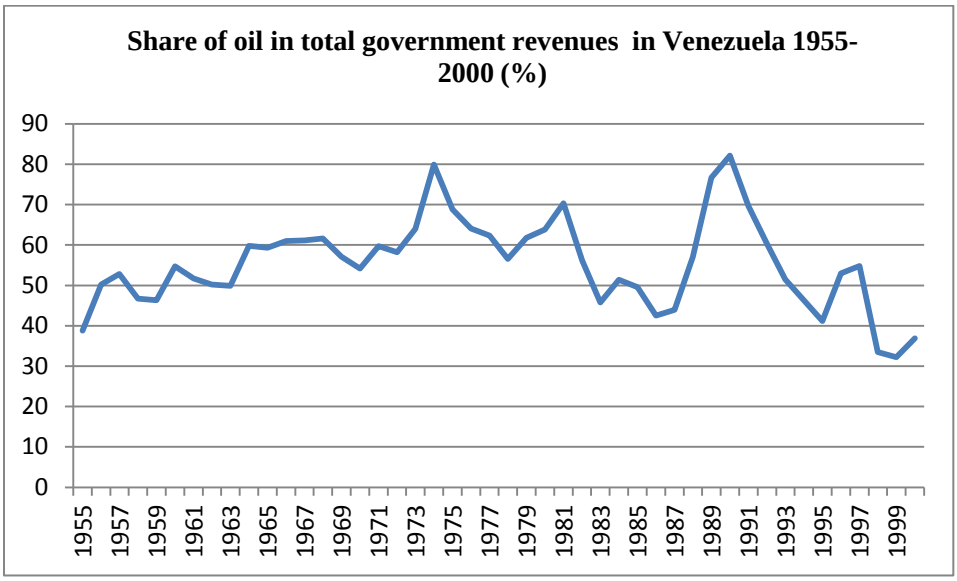
Figure 3.7: Venezuela's Freedom House score (1973-1999)

The theory predicts certain mechanisms to contribute to democratization, which are associated with oil industry being controlled by independent actors. First, it predicts redistribution instead of distribution: as the government revenues are smaller, it has to generate income through taxing the citizens, and citizens in turn demand accountability from the government as they pay higher taxes. The mechanism takes different form in Venezuela. We do not see redistributive policy instead of distributive; Punto Fijo democracy had chosen the distributive policy even when in times of economic crisis the redistributive would be the wise option. Venezuela's state was formed as a set of practices, regulations over the oil production and oil-derived money[102], thus from the very beginning the role of state was rather distributive than redistributive as the oil industry has been the main resource of government revenues. D. Hellinger, for example, mentions "Hispanic extractive engine", extraction of resources over the history of Venezuela, state taxes exports to generate its' resource and other type of taxes are historically low in Venezuela[103].

Oil wealth has been a buffer between elites and citizens for most of the second half of 20th century. The citizens started to demand accountability and their wider participation and representation in the gov-

[102] Coronil 1997
[103] Hellinger 2004

ernment when oil revenues failed to provide this buffer and government couldn't maintain the commitment as a "caregiver" to its' citizens. Thus, oil wealth for a long time mostly constituted other forms of generating the revenues, government preferred to find new ways to extract revenues from hydrocarbon sector rather than impose high taxes on its citizens[104]. Although after 1958 maximum income tax rate still went up to 45% from 26%[105], so government did increase its' tax base. As predicted by theory, the democratic government increased the tax rate, which impact citizens expectations: but instead of demand for accountability predicted by theory, Venezuela's state has been viewed as a "caregiver" providing all services and taking care of its' citizens.



Source: Jorge Salazar-Carrillo, Bernadette West "Oil and Development in Venezuela during the 20th Century", 2004

Figure 3.8: Share of oil in total government revenues

Looking at the table of oil industry share in total government revenues we can observe that large portion of revenues is generated by the industry (figure 3.8). Overall, it was not until 1983 when oil revenues went below 50% of total government revenues, thus, at that point government had to make up for decreased revenues by taxing its citizens. The revenues from the oil sector sharply increased 1989-1992 (over 50%), but overall from 1983 until 2000 the oil sector contributes to less than a half of government

[104] Dunning 2008
[105] Boue 1993, p. 12

revenues. This coincides with the period of high society mobilization and citizens' active participation and demand for changes.

What is important is that the government didn't have a direct access to the resources, despite adopting distributive policies instead of redistributive. PdVSA being a national company was run as a private company and thus paid taxes to the government (67%). The revenues from the oil sector were the base for dynamic economic and social development of Venezuela, but the government spending was not targeted at specific population groups but rather the spending was utilized for all citizens and targeted to boost the economic development (to branches of the economy :agriculture and industry). PdVSA had independence from the state Board of Directors, and management accounting for national interests still was profit-oriented. State, on the other hand, benefited through distribution of received revenues with taxing the company.

The key mechanism in Venezuela's democracy consolidation is the role of oil revenues in mitigating the potential social conflict, it was not until late 1980's and 1990's when share of oil revenues fell below 50% of government revenues and state had to balance its budget with spending cuts and taxation. Taxation and demand for accountability took place in Venezuela, but in later years of Punto Fijo democracy.

The second mechanism, bargaining of the industry actors with the government, took place in Venezuela, but the outcome was predetermined by the legal framework; being a national company implies that company has to balance between national and its commercial interests.

As PdVSA owned by the state, despite being able to fight off attempts to de jure control it, in some cases state was able to gain leverage over the industry. For example, in September 1982 when bankrupt government of Luis Campins confiscated $18 million worth of investment, this ended the status of PdVSA as self-financing company. In 1991, energy minister Celestino Armas issued a directive to the president of PdVSA, Andres Sosa Pietri which changed the relations of PdVSA and its affiliates; company no longer could create new affiliates and change the rules for existing affiliates without the ministry's approval. In addition, PdVSA should not incur any costs not mentioned in the government-approved

budget (such as salaries increase, benefits, and pensions); in protest PdVSA board of the company threaten to resign. In response to which government restored the company's entrepreneurial autonomy, while maintaining the sanctions it dropped the requirement for necessity of ministry's approval, instead PdVSA just had to inform the ministry. Also to ensure understanding relationships between company and government the committee was created, which consisted of the energy minister, president of the PdVSA, planning minister and head of Central Bank of Venezuela[106].

Moreover, D. Hults, for example, argues that by the 1990's PDVSA "exerted pervading influence over Venezuela's state"[107]. The government reduced the company's tax burden; even in the times of the fiscal crisis of the 1990's the company was giving frequent advice on economic matters to the government agencies. PDVSA also effectively replaced the financial ministry as principal negotiator with IMF[108]. Therefore, PDVSA in some cases was able to bargain with the government, insist on its interests and stand up for its autonomy.

Was bargaining reflected in building strong institutions: property rights, independent judiciary, strong legislature, and civil society? The distribution of oil assets prevented the poor from demanding the distribution of elite's assets, thus, oil revenues did play a role in securing property rights. Such distributional arrangements helped secure PDVSA's economic and political autonomy.

However, from late 1980's-1990's Venezuela remained in the bottom 50% of countries for all six governance indicators of the World Bank[109]. The widespread corruption of late Punto Fijo years highlighted by D. Hellinger as well: scandals on Banco Nacional del Discuento, Venezuelan Workers Bank, series of investigation of AD officials' public funds diversion[110]. In his other work, he also notes that the competition for petrodollars was so high that the judiciary was not able to cope with it: as a result the wealthy benefited the most, yet lower class also received its share of revenues. The corruption was wide-

[106] Boue 1993, p. 25, 26
[107] Hults 2012, p. 443
[108] Hults 2012, p. 443
[109] Hults 2012, p. 441
[110] Hellinger 1991, p. 142, 143

spread and in the same time "democratic" – other classes also benefited from the wealth and a belief in country advancement capabilities was common. However, this system started to decline in the 1980's[111].

Civil society was affected by the organizational peculiarities of Punto Fijo system, its' institutionalization. AD, for example, dominated labor and other organization to the extent that civil society was deprived of independent decision-making possibilities[112].

Thus, despite Punto Fijo democracy having strong democratic institutions such as property rights, strong legislature, the system due to allure of oil revenues was vulnerable to corruption on all levels, and this became especially apparent in the 1980's-1990's, which discredited the system. The independence of judiciary can be questioned, as well as it provides the evidence for lack of rule of law.

Independent actors also predicted to have an impact on the media: in case of Venezuela national company PDVSA was not involved in political matters until beginning of 2000's. It did not have the exact effect predicted by theory (for example, when same actors own the oil company and media holding), yet the media enjoyed significant independence and known to be objective: late years of Punto Fijo democracy with numerous corruption scandals, coverage of political events. Despite international agencies pointing out some violations of free press rights, overall during Punto Fijo regime media enjoyed freedom[113]. It was not until president Chavez when media began to be pressured: first verbally and then physically with government requiring a mandatory coverage of president speeches and cutting off access to airwaves during opposition marches. Media was one of the most significant opponents for Chavez[114], and this was possible because of free media institution developed and established during previous regime Punto Fijo democracy.

Another mechanism, socio-economic investment of independent actors: in case of PDVSA we can see economic investment – oil fields development and infrastructure building. Yet, due to PDVSA being a

[111] Hellinger in Ellner, Hellinger 2003, p. 30
[112] Hellinger in Ellner, Hellinger 2003, p. 12
[113] Hellinger 1991, p.166
[114] McCoy, Myers, 2004, p. 283

state-owned company, it was not able to have social investment, apart from being the major employer (social benefits for its employees).

Therefore, most of mechanisms predicted for the model 1, independent actors, took place in the case of Venezuela. Oil industry run independently of the state actors provides a buffer between elites and its' citizens, it allowed Venezuela's democracy to be built and prosper. Autonomy of national company made it insulated from political pressures. However, apart from preventing redistributive conflict between rich and poor, oil endowment was not expressed at building a strong rule of law: the oil bonanza had been compensating the need of those. Importantly, PDVSA's independent nature for most of the second half of the 20th century prevented it from being a subject of political conflict over the course of Punto Fijo democracy, as well as from it being used by the government to sustain clientelist practices and from potential authoritarian control.

The fact that mechanisms (some aspect of institution-building and social investment) did not occur in Venezuela's case mainly due to allure of oil revenues windfall (which caused corruption) and ownership type (PDVSA investments limited to its' purview). In contrast to the private company, national company has to consider national interests and sometimes subordinate to the decisions made by government agencies.

Clearly for Venezuela's case, the intervening variable of oil prices has great impact on regime evolution prospective. As the regime was heavy-reliant on the oil wealth, and due to the distributive nature of regime and the state, the democratic regime was highly dependent on these revenues. When revenues started to decline, the representative democracy of Punto Fijo became the basis for patronage distribution by political parties also declined. This is not the only reason for the gradual democratic regime decline, economic mismanagement, the exclusive nature of the regime; it all had contributed to the political turmoil of 1990's.

3.2 Model two: government control of the industry and authoritarian backsliding

3.2.1 Russia

Political and economic development of Russia 2000-2012

Political and economic uncertainty of the 1990's was the major reason of justifying the increased role of the state and particularly the executive branch in the 2000's. The 2000's decade became a time of state power consolidation, which was lost in the turmoil of the 1990's.

The privatization, decline of state revenues, external and internal borrowing (with actors consistently increasing the interest rates due to government inability to pay back), plunge in the oil and gas prices, and Asian financial crisis in the 1998, - all contributed to the extensive financial crisis, default of August 1998, when government announced moratorium on its' debt, and ruble lost two-third of its value overnight. This was a great shock for the economy and the society; many went out of business, the quality of life incredibly declined throughout the nation causing mass poverty. Despite the devaluation being harmful for most of the country, few industries benefited from devaluated ruble, mainly the exporting resource sector and the government being able to cover its internal debt.

The system formed in the 1990's had certain characteristics of institutional system, which influenced country's development in the 2000's. A strong executive branch, weak legislative and judiciary branches, absence of strong and well-established democratic institutions; such rule of law undermined the prospective of democratic development of the country in the subsequent years.

J. Newton, for example, argues that the crucial mistake of the government of the 1990's was to assume that privatization will automatically take the country to democracy, yet didn't pay sufficient attention to the rule of law[115]. Establishing strong judicial branch and leveraging executive power with legislature, in this case 2000's could have a different scenario.

When we look at the time of the shift to less democracy in the 2000's, we need to account for these circumstances and what agenda Putin had when he initially stepped into the president's position in 1999.

[115] Newton, Tompson 2010, p. 79, 80

Putin started his term targeting at security and economic situation, which required him to increase the government role significantly. Due to a previously established super-presidential system, he had capacities to do so.

The main target in the security sphere was to eliminate the separatist threat from Northern Caucasus (Chechnya and Dagestan), which was achieved by fighting militias as well as employing former separatists movement leader's as a leaders of the republic. As far as the economy is concerned, the government first needed resources and second line of economic development, rather than pluralism of the 1990's. To achieve this, the state needed to gain back the control of the "commanding heights" of the economy: resource sector, avia and auto industries, railroads, and transportation.

Even before coming into power V. Putin had a vision of the state gaining control of strategic industries of the country. His dissertation submitted in 1997 titled "Mineral resources in Russia's economic development strategy" emphasized the importance of resources not being used by oligarchs for profit-making, but by the state for advancing its national interests. After gaining control of hydrocarbons the government set the Stabilization Fund in 2004 to reduce the impact of oil price volatility on non-oil sectors. In 2005 the fund was split between two: Reserve Fund targeted (non-oil industries) and National Wealth Fund (pensions).

Leader in the natural gas reserves and production, government line was to acquire full control of already government, owned natural gas company Gazprom to advance the strategy. Gazprom, the monopolist with a connection to the government, was even more closely tied to the government during 2000's. In 2002, the government revoked the Gazprom CEO's voting control over treasury stocks and shares. In 2005 majorly state-owned company Rosneftegaz purchased a 10% share in the company, hence cementing state control over the company.

In the oil sector the events were more dramatic than in the gas sector. By the end of 1990's, before V. Putin came in the office in 1999, five major private oil companies were formed: LUKoil, Yukos, TNK-BP (which consisted of 100% of Sidanko assets and 38% of Slavneft), Sibneft, and Surgutneftegaz. At the moment, two of these companies no longer exist (Yukos and Sibneft), and TNK-BP was recently (Octo-

ber 2012) bought off by the state company Rosneft'. How the picture dramatically changed, when private companies representing only a portion of the market by the end of 2012 vs. privatized and manly independently control sector in the end of 1990's?

Over 2000's, we can observe the trend toward state ownership and control in Russia. It began with Yukos, the court trial against the company and later imprisonment of their CEO Khodorkovskiy. Assets of the company were bought in December 2004 by Baikalfinansgroup (the investment company) with the beneficiary being state oil company Rosneft'[116]. In 2004 Sibneft' owner Berezovskiy began to be persecuted by the authorities and he fled to the UK, leaving the assets to his junior partner R. Abramovich. In September 2005 Gazprom purchased 69.66% of Sibneft' from him[117], which made Abramovich the richest person in Russia (surpassing Khodorkovskiy with his assets before the imprisonment).

By 2005 the state owned 25% of the market shares in oil industry. In 2005 the control over the energy industry became part of the president strategy. With the purchase of TNK-BP in 2012 state will own more than a half of the oil market. In the spring of 2008 corrections were made in the subsoil law, preventing foreign companies from developing extensive outfields as they present strategic importance for the nation (lately talks about changing it back took place as this legislation prevent foreign capital from investments)[118].

As argued by M. Goldman, Putin have seen energy industry as the main tool for country's development and advancement of the strategic interests abroad. Goldman in 2008 foresaw government takeover of TNK-BP, which occurred 4 years later. The reason author states that by 2008 foreign capital owned (through joint ventures) 26% of the market share didn't go in line with Putin national wealth strategy[119].

How the power balance between government and business shifted to government when business became so powerful throughout 1990's? From the very beginning of his tenure, Putin notified the oli-

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[116] Due to risk of lengthy litigation, if assets were bought off by state company such as Gazprom or Rosneft', the official buyer was unknown Baikalfinansgroup, then from them Rosneft' purchased 100% of the former Yukos share.
[117] Newton, Tompson 2010, pp. 70
[118] Federal law 58-FZ from 19.04.2008 "About changes for some legislation" http://www.rg.ru/2008/05/07/izmenenia-investicii-dok.html
[119] Goldman 2008

garchs that, unlike his predecessor, he would not take advice from the business clique. As former KGB officer, head of FSB (Federation Security Agency), and having connection in the administration, his support was based on security enforcement agencies rather than business circles as it was with B. Yeltsin. By 1999 the political system was established with strong executive branch and Putin, unlike his predecessors, did not need to ensure businessmen support to implement political and economic reforms. However, Putin didn't confront most oligarchs, promising them not to investigate the shady ways they gained their fortunes, but asking them in return to stay out of politics and play by new rules.

In contrast, those who did not agree with this line and went against him were removed from the country's economic and political life; they faced a choice of exile or imprisonment. Government implemented all possible legal actions to deal with its' opponents, and the executive branch was able to do so mainly because of lack of independence in judicial branch.

The most well-known example is a Yukos trial, the oil company, at the time the second largest in Russia. The trial was caused by the company's chief having a political activity that didn't fit into Kremlin's agenda. Having established the pro-democratic organization "Open Russia" Khodorkovskiy himself led active democratic education and political rights outreach throughout the country. Established in 2001 as a philanthropic organization, Khodorkovskiy was his founder.

Rather than comply with Putin's line, Khodorkovsky decided to confront it. As a result of which the criminal investigation was launched against him in 2003; he and other company's top managers were arrested in 2004 and the assets of the company was bought at the auction by a number of state companies. It happened right at the time when Yukos was planning to sell its shares to Exxon Mobile, but the sale didn't happen (again, Putin prefers to keep ownership domestic). In addition, Khodorkovskiy signed 21 contracts on oil delivery to China[120]. He crossed the line, with his wealth and influence threatening the one of Putin. In contrast, those who opted for compliance (like owners of LUKoil) have enjoyed a beneficial "national champion" position.

[120] Goldman 2008, p. 103

Khodorskovsky's imprisonment has lasted until present day and it is unclear whether he ever will be released as the government launched another court trial against him. Most of the political analysts regard Khodorkovsky as a threat to Kremlin's monopoly of political and economic power.

Political regime of Russia in the 2000's

With the state three-branch system staying the same the important dynamic took place in the 2000's. The executive branch took over control of the country politically in additional to economic measures, controlling the legislature and judicial branch, pushing away and erasing the alternative power centers formed in the 1990's.V. Putin, unlike his predecessor, B. Yeltsin, put organization efforts to form a single ruling party; United Russia (which included some of the former democratic forces and most of the bureaucracy). Consolidating the power and resources he was able to create a powerful political force which keeps majority stakes in the legislature throughout the country up to the current day,

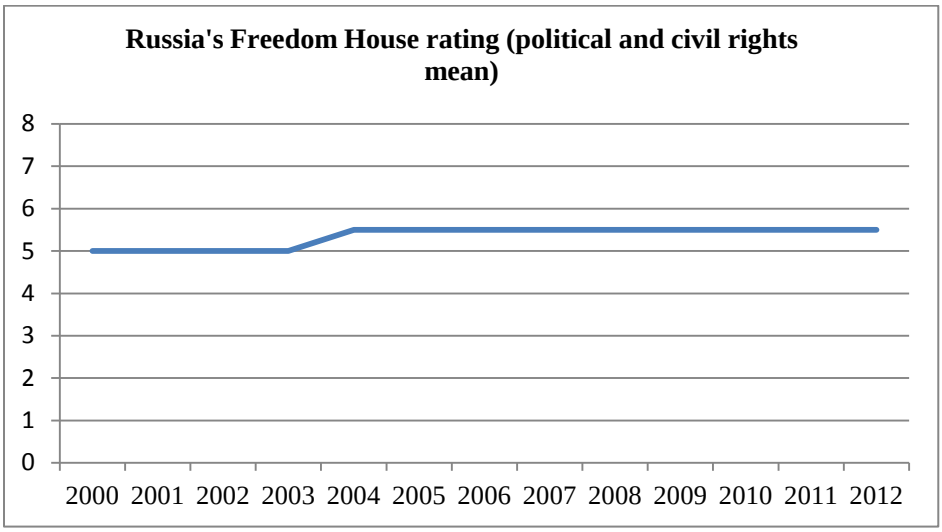
Along with the economic sector, the media sector also became more nationalized: the conflict between state (V. Putin) and NTV (its' owner Gussinskiy) started in late 1999 ended up with NTV disappearance as the only independent media company in Russia; state ceased control of another media holding, ORT also in the mid 2000's (conflict between Putin and Berezovskiy), which made the media solidly controlled by the government. The conflict began the unfavorable coverage of the Kursk submarine sinking in 2000 by ORT and NTV. The companies blamed the government for not taking actions to prevent catastrophe and handling of its consequences.

Throughout the 2000's and specifically lately, in 2011 and 2012 we see the country plunging into authoritarian ruling style: concentration of power in executive branch, concentration of major economic assets in the government control, pluralism again is discouraged, protests heavily regulated to prevent organizers' efforts to gather people and international organizations are limited in their activities on the territory of the RF. At the same time, Russia in the 2000's was able to partially recover its international status, using oil revenues not only for economic growth, but for its' role on the international arena as well.

Does state control of hydrocarbon industry contribute to authoritarian backsliding?

Despite political discontinuity being harmful for the country it presents a chance for breakthrough development of institutions and rapid democratization. Russia rapidly democratized, yet it didn't consolidate its' democratic institutions or create strong rule of law, which was part of the reason of country democratic score's sinking in the 2000's.

Polity IV score decreased from 6 to 4 over the year of 2007 (Russia still considered as a hybrid regime), Freedom house score is "partly free" for the 1st half of the 2000's and "not free" from 2005, political rights figure becomes 6 in 2005. Hence the political regime has a downward trend.



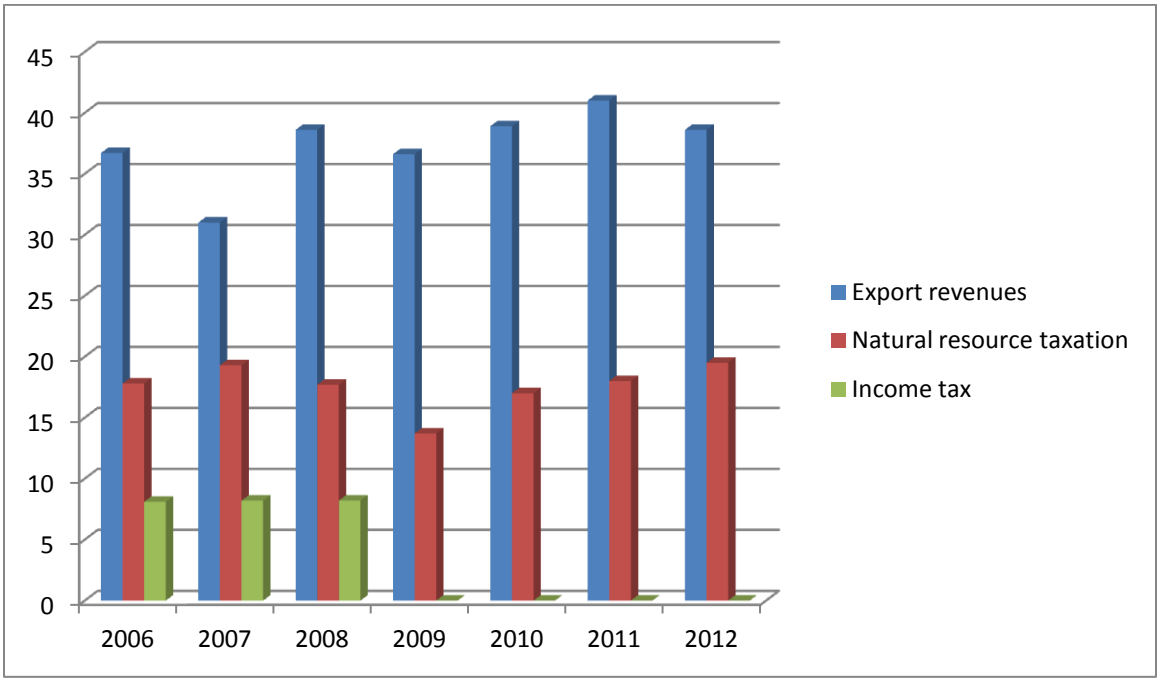
Source: Freedom House
Freedom House scores interpretation: "1" to "2" – free, consolidated democracy; "3" to "5" - partly free, "3" – semi-consolidated democracy, "4" – transitional government or hybrid regime, "5" – semi-consolidated authoritarian regime, "6" and "7" - not free, consolidated authoritarian regime.

Figure 3.10: Russia's Freedom House score 2000-2011

Let's look at three main mechanisms that can transfer independent resource ownership into democratization of a regime: taxes and accountability, bargaining and socio-economic investment. Due to low compliance (top income brackets and organization not paying taxes) and overall system inefficiency, it was decided to change the tax system[121]. Tax reform in 2001 introduced flat rate of 13% for the income tax (which was a decrease of tax rate comparing to the previous three-bracket system), and decreased en-

[121] The official government statistics claims increase in revenues with new tax reform. However, despite introducing the flat tax rate and lower corporate taxes tax evasion remains a common practice in Russia Federation.

terprise taxes to 24%. The data of income tax, its' percentage in total government revenues is available only for 2006-2008, but from this data we can have an idea that most of government revenues comes from export activities, which mainly consists of fuel and very small part of taxes from the citizens' income (figure 3.11).



Source: Russian Federation Ministry of Finance
Note: no data for income tax revenues from 2009

Figure 3.11: Export revenues and revenues from taxation of natural resources usage in Russia 2006-2012 in total government revenues (% of total government revenues)

Decrease of taxes coincides with low political activity, since the government performed socio-economic investments and thanks to the oil prices in the 2000's the economy was booming, the citizens (until the end of 2011) were not rioting to hold the government accountable. Lowering the tax rates combined with low tax compliance by private owners and therefore low revenues could be the reason for state to turn to control strategy for the hydrocarbon and other (energy, media, aviation and machine-building) sectors.

Private business was not able to bargain and due to lack of rule of law[122], when judiciary branch was used against prominent businessmen, it was not able to stand against the state power concentration trend. Yet, Khodorkovskiy's trial presents the case when government encountered an obstacle on the way of power concentration. State had to launch the court trial in order to reach the resources of the company and diminish the political threat.

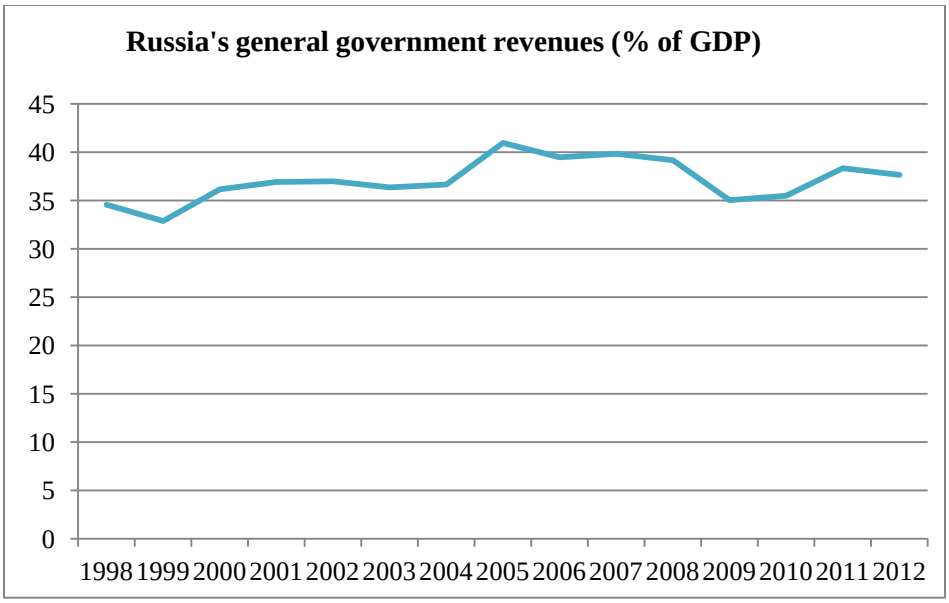
Source: IMF data

Figure 3.12: Russia GDP (1993-2012, percent change)

Gaining control of the industry government got rid of checks that can be otherwise imposed by free media for example. Putin's concentration of power and energy resources combined with high economic growth (figure 3.12) and rise of government revenues (figure 3.13), left opposition weapon-less. The population did not realize the negative consequence of oil price volatility[123] until late 2000's and was outraged by lack of objective information (development of internet play an important role in shaping this movement). The important part of why opposition was able to organize itself after some time, was private ownership, which is still present, not as much in the energy industry, but in many other industries and due to which the opposition was able to gain resources.

[122] Such as independent judiciary, checks on executive branch and law enforcement, - all this institutions were not fully formed and duly organized in the 1990's, which resulted in their weakening in the 2000's. In fact, the rule of law didn't improve over 1990-2000's, what has changed is state capacity.

[123] Despite government efforts to mitigate the effects of crisis (bailing out banks and other industries with Reserve Fund, the economy sank in 2009.



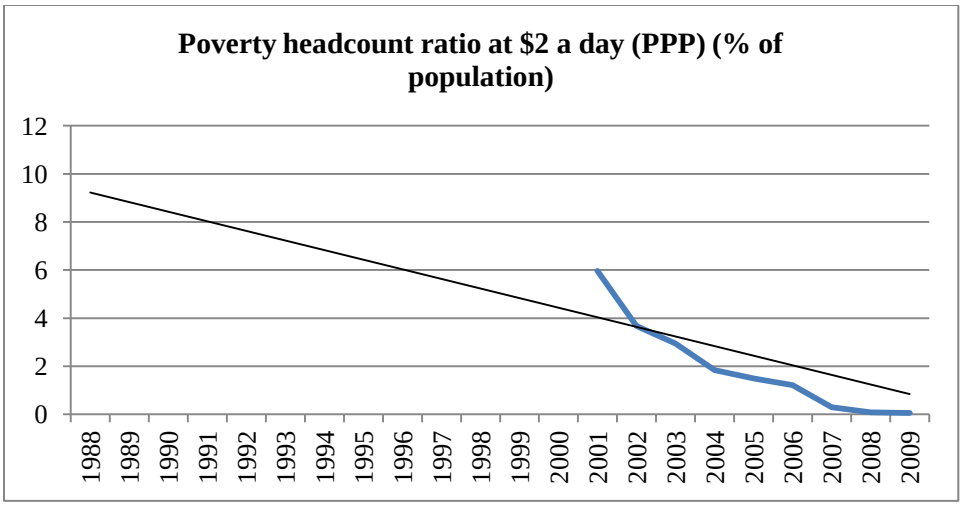
Source: IMF data

Figure 3.13: General government revenues Russia 1998-2012

The state gained more direct access to the resource revenues in the 2000's compared to 1990's, in form of taxation by nationally owned companies. The state had been manipulating rents domestically (social and economic redistributive programs: various "Priority National Programs" of V. Putin government: Health, Education, Housing, Agriculture development[124]).

In 2011 and 2012, (data not available before) the government spending on social policy was 28.8% and 33.5% of GDP respectively[125]. Despite the increasing inequality trend (figure 4.3), as a result of extensive government spending the poverty rates declined (figure 3.14)The opposition faces difficulties organizing itself due to less resources and it's unprivileged role (since it is the state that distributes the oil wealth).

[124] According to World Bank data, spending on public sector as % of GDP in 2010 was 28.1% comparing to 22.6% in 2002 (no data before). http://data.worldbank.org/indicator/GC.XPN.TOTL.GD.ZS
Spending on education also has a modest (despite national program assigned to this area) upward trajectory 2.9% of GDP in 2000 to 4.1% of GDP in 2008 (no data before 2000).
http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS
[125] Data from Ministry of Finance web-site http://info.minfin.ru/fbrash.php



Source: World Bank data

Figure 3.14 Russia: poverty headcount ratio at 2$ a day

Putin's Russia has been using the energy sector as leverage in politics: especially in relations with EU and transit disputes with CIS countries. And unlike in the 1992-2002 decade, when Russia didn't manage to play his interests in relation to other oil-rich CIS countries[126], it was more successful at energy policy in the 2000's. Russia chose to negotiate its interest with its clients and transit countries (such as Hungary and Bulgaria), which were willing to plan pipeline's alternatives with Russia (Southern stream instead of Nabucco, for example). Given the extent to which Europe is dependent on energy imported from Russia (Germany, for example, has 40% of its' natural gas imported from Russia), it gives a diplomatic leverage.

How does resource control affects the governance ability to concentrate political power? Obtaining a resource control and ownership Russian state was able to monopolize the power. Yet, it faced an obstacle to direct access to resource wealth in the form of private, independent owners of the oil companies. Only eliminating this impediment by taking advantage of the judicial system and the fact that the program of privatization and its winners were not popular among citizens, the government was able to consolidate its power. Private ownership can pose a constraint, first with Khodorkovskiy, and now possibly with M.

[126] Stulberg, 2007

Prokhorov (owner of Norilsk Nickel, largest aluminum enterprise in Russia) presenting an alternative to the current regime.

The main challenge of the theory, endogeneity, that political regime produces the economic arrangements outcome rather than this industry arrangement affecting governance. Chronologically, we can observe that Yukos trial in 2004 was prior to the regime becoming more authoritarian – Russia changes its category from "partly free" to "not free" only in 2005. The change in industry exploitation arrangement precedes the regime sliding. After the shift in the industry control, the political regime of Russia becomes clearly authoritarian, although keeping some democratic institutions, such as elections, political parties and de jure rules of law. In other words, the Russia of the 2000's presents a clear competitive autocracy case.

As for the intervening variables, political leadership and prices (figure 3.5), we can observe that these two are clearly plausible explanations of change in the 2000's. Without Putin's actions and his background in federal security, as well as high oil prices Russia wouldn't be the regime it is now (when 60% of the exports consist of fuel).

Yet one more important variable was a key for Putin being able to consolidate state power to this level: previously built institutional arrangements. Without super-presidential system Putin wouldn't be able to gain the extent of government control he did. Historically, with a strong executive branch, weak legislature and judicial branch, he was able to concentrate power. The relationships between resource control and institutional arrangements can be additive or it can be that weak institutions precede the possibility of the state to gain control of resources.

Higher oil prices could be an incentive that attracts the state to take over control of industry's ownership and control. On the other hand, it was generally the line of the government to expand the state in the variety of spheres of the country. Institutions, at the same time, can be the variable that allowed Putin to concentrate power (weak legislative branch) and government to take over private companies (weak rule of law).

3.2.2 Venezuela

Venezuela under Chavez: regime evolution

The economic crisis caused by decline in oil prices and government mismanagement of the economy, decay of Punto Fijo political system and its' inability to adapt to the new realities laid out the way for Chavez entry into the politics in 1998. His victory with 56% of electoral vote illustrated that society of Venezuela was waiting for changes in economic and political systems.

The "Bolivarian revolution[127]" started with H. Chavez changing the political system, eliminating the traditional AD/COPEI governance. He signed the presidential decree calling for a consultative referendum to elect delegates for the Constitutional Assembly. The constitution referendum held in April 1999, in which Chavez received 87% of vote in favor of forming the Constitutional Assembly. The Constitutional Assembly was needed because without establishing it H. Chavez party (Fifth Republic Movement at that time) didn't have enough votes (2/3 required) to change an article in the constitution.

Due to fragmentation of opposition, Chavez's party was able to get a maximum amount of seats in the Assembly and in the three months the new constitution was drafted[128]. According to the new constitution of December 1999, the Senate was eliminated; making legislative branch unicameral and in addition, the power of the executive branch was expanded. Thus, the already-presidential system now had a clearly presidential constitution. In 2000, H. Chavez was elected with 59.76% of vote as a president of Bolivarian Republic of Venezuela[129].

Having gained political control, H. Chavez started to implement its economic policy, which was reflected mainly in expansion of the state role in the economy. In spite of the neoliberal reforms of 1990's, the Venezuela's economy has already been quite statist, as discussed in Model 1 for Venezuela: traditionally the role of the state was to distribute the externally generated rents and in oil boom years the economic development was the result of government intervention in the economy. Corrales (2011) argues that

[127] The name originated from the famous Venezuela-born Latin American liberator, Simon Bolivar.
[128] Corrales 2011
[129] Tarver, Frederick 2005, p. 152

neoliberal reforms were not the main reason for political unrest as they were never fully implemented as they were very superficial reforms and the economy was still statist.

H. Chavez openly condemned the neoliberal policies of the 1990's and offered a rather socialist alternative for Venezuela. Laws announced by the president in 2001 for economic, social and education spheres touched upon interests of middle, upper classes and opposition led by labor and business leaders attempted to stop "chavismo".

The constitution of 1999 reasserted the states role in preserving Venezuela's oil wealth sovereignty, but it allowed foreign ownership of PDVSA subsidiaries and strategic associations. On November 2nd 2001 Chavez issued a decree enacting the new hydrocarbon law, which stated again state ownership of hydrocarbons. As the main purpose of the industry is to promote national development and common good, all of hydrocarbon related activities are subject to the country's public policy. Article 24, for example, states that the executive branch by decree may allow upstream contracts with the private company, as well as to revoke it by a decree; downstream activities could be performed by private companies with the license issued by Ministry of Energy and Mines. The new government authority to oversee the energy sector was created. Also, according to the new law, the royalties were raised to a flat fee of 30%[130]. Therefore, new hydrocarbon law reasserted the role of the state and expanded the executive branch purview in the oil industry.

As a result of new economic policies, in the 2001-2003 Venezuela's society became even more polarized; the president and his supporters maintained populist rhetoric and refused to reverse the course, yet the opposition seemed to have a lever in the events of the 2002 coup. Several steps were taken by the opposition to counter Chavista: coup of 2002, PDVSA and general strike, recall referendum of 2004 and boycott of 2006 election. However, apart from temporary success they were not able to gain significant leverage and I would like to argue this is largely due to Chavez acquiring control of the hydrocarbons.

Coup of April 2002 removed Chavez from the presidential seat for 2 days. In February 2002, Chavez appointed a new Board of Directors PDVSA, despite opposition of the company's executives. In

[130] Cuervo 2010

April of the same year, the company completely stopped its' operations for one day and went on strike, unions and Federation of Business Chambers supported this move.

On April 11th, the people rallied on the streets in support for the strike, which resulted in clashes between opposition and Chavez supporters. The polarization of the society resulted in major violence on the streets of Caracas. Military, refusing to repress, demanded Chavez to resign. P. Carmona, head of FEDECAMARAS (Federation of Business Chambers) became a transitional president and his ultraconservative government announced annulations of the 1999 Constitutions and National Assembly. However, quite soon military and civic groups restored the power of the president H. Chavez and he agreed to restore the old (independent) PDVSA board.

High polarization and violence in Venezuela became an international concern. The effort of peaceful transition and facilitation of communication between president and the opposition was made by the third party, secretary general of Organization of American States (OAS) and the Carter Center. Yet, despite appeasement and mediation efforts, the general strike was announced in the cities controlled by the opposition, and negotiations were disrupted with PDVSA joining the strike[131].

Oil industry feared its' autonomy and formed a quasi-union "Oil people", when they recruited workers from middle and top management. This union became significantly connected to Democratic Coordinating Unit, the opposition body.

Stopping of oil industry halted Venezuela's economy; the oil and gas industry strike caused a 15.8% and 24.9% GDP decline in the last quarter of 2002 and first quarter of 2003, respectively[132]. Chavez chose to repress rather than negotiate: he fired PDVSA staff participating in strike (18.000 people)[133]; he took over PDVSA operations and ordered the military to distribute food from the warehouses (due to food shortages that occurred during the strike). Chavez replaced PDVSA staff with low-ranking workers and military officers to recover the operations. In addition to the new practice of appointing

[131] McCoy, Diez 2011, p. 75
[132] Cuervo 2010, p. 669
[133] PDVSA Board members filed a lawsuit and court found it illegal and ordered to return management at their post. Yet Chavez administration did not follow the court order.

Board of Directors from candidates loyal to Chavez and replacing PDVSA staff, he merged the leadership of Ministry of Energy and Mines and PDVSA[134].

The country was divided with actors taking sides in the conflict, which made negotiations incredibly difficult. Finally, in May 2003 thanks to international efforts to stabilize the situation, an agreement between the government and opposition was signed. The most important points of the agreement: stated the end of the 62 day strike with no retribution for the people who participates, a recall referendum no later than August 2004, formation of a joint national and international committee to oversee the electoral processes, both sides would use electoral process for reconciliation of the society, and human right would be respected[135].

Not giving up, the opposition was moving toward the recall referendum on whether or not citizens see Chavez as their president. Opposition went through the difficult process of negotiating the conditions for the referendum, signatures had to be collected twice (due to change in regulations), but finally the date was set in August 2004 to hold a national referendum. However, H. Chavez won the referendum with 59% of the vote, while in 2003 his approval ratings were 45%. This can be attributed to the large social spending by the Chavez administration used to boost his popularity (as by 2003-2004 government had control of the oil industry)[136].

Chavez redefined the mission of PDVSA to include priorities of the government; 10% of revenues have to be spent on social investments. Revenues were channeled to various Missiones (social programs which include free healthcare, discounted food and household goods in poor neighborhoods, education program and job creation) through National Development Fund (Fonden), which was set up in 2005 and not included in the budget.

The opposition had incomparably less resources than the government, decided to boycott the 2005 elections. As a result of which the government obtained complete control of the legislature. Elections in 2006 for the president also illustrated Chavez being well ahead of his rivals.

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[134] Corrales 2011, p. 76
[135] McCoy, Diez 2011, p. 102
[136] Corrales 2011, p. 26

Being reelected for the second term of the president Chavez began implementation of the program of "twenty-first century socialism". He started by unifying the power in a single official party, the Unified Venezuelan Socialist Party. He attempted to pass constitutional reform to have no term limits for the president, yet it was rejected by the citizens. Other political reformed included redrawing the political administration map so it would decrease the influence of governors and mayors and establishing communal assemblies; further decreasing the authority on the local level[137].

"Twenty-first century socialism" implied mixed ownership system of cooperatives and workers-management schemes. The economic model of Chavez can be characterized as macroeconomics of statism and populism and included: nationalization, exchange and price controls, lavish state contracts and massive social spending for its' supporters[138].

In 2007, Chavez initiated a large takeover by the state of majority stakes in heavy oil production, which was previously owned by the foreign oil companies and nationalized companies in other important strategic sectors such as telecommunications, steel[139]. Meanwhile, not all foreign oil companies accepted new rules (60% PdVSA stake): Exxon and Conoco-Phillips refused to accept new regulations with Exxon Mobil filing the lawsuit.

One of the laws enacted in the aftermath of recall referendum was social content law was, intended to ensure no violence or indecent content went on private television. It was criticized as an impediment for the free speech (showing political violence on the streets, for example)[140]. Venezuela has a long problem of "two Venezuelas": one of government television and another one, private, that draws completely different picture of the events. As private media conglomerates supported the opposition, Chavez had to constrain the "fourth power". The conflict between government and media is continuous: in 2007, for example, RCTV was refused to have its' license renewed. Due to subjectivity of the two sources of news: government and private some community organizations decided to have their own broadcasting, - this is

[137] Corrales 2011, p. 34
[138] Corrales 2011, p. 48
[139] McCoy, Diez 2011, p. 195
[140] McCoy, Diez 2011

the alternative, third source of news[141]. In a reaction of revoking RCTV license and constitutional changes proposed by Chavez students from private and public universities organized protests.

In the election year of 2008, the government announced a list of people banned from running for the offices due to them being involved in corruption, which included many opposition members. In 2009 Chavez administration used a tool of political persecution accusing M. Rosales, mayor of Maracaibo and former presidential candidate, of corruption, because of which he had to exile in Peru. Year 2009 also brought the important political system change, and the restriction for presidential terms was removed. The statist policies and incompetence of Chavez administration were seen as the main reason for the electricity crisis, which occurred in energy-rich Venezuela in 2010.

Reelection of Chavez for the third term in 2012 indicates that country will follow the same oil-based state-oriented economic model. Importantly, Chavez did not exclude foreign companies from operating in Venezuela, but in later years he preferred to cooperate with state-owned companies of countries with similar hybrid and autocratic regimes from Russia, China and Iran.

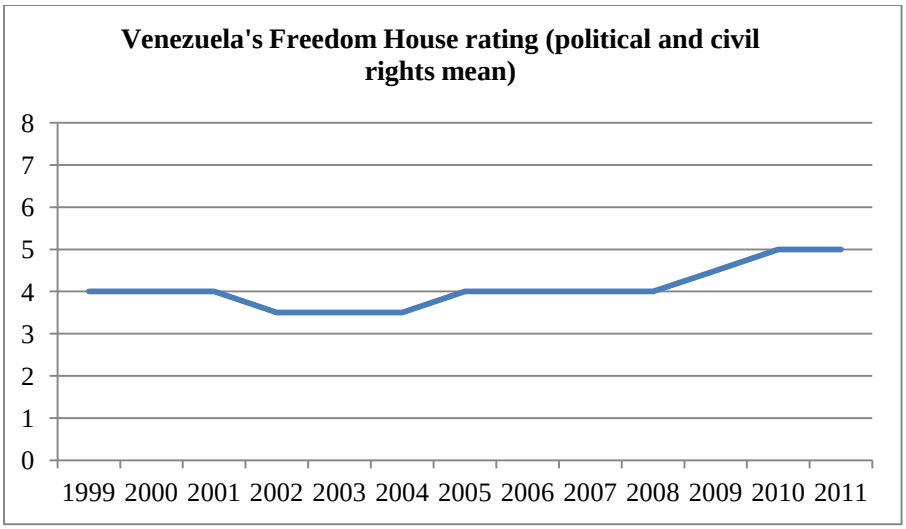
Table 3.1: Main stages of state gaining control of oil industry in Venezuela

Year	**Actions taken by government that affected hydrocarbon industry**
1999	New constitution of Bolivarian Republic
2001	Hydrocarbon Law
2003	Operational control of PDVSA
2007	Nationalization of Orinoco oil fields (PdVSA majority stake)

Did nationalization efforts by Chavez contribute to authoritarian backsliding of the regime?

Looking and comparing the chronological chain of events on government asserting control over the industry, Polity IV (democracy until 2002, currently maintaining the score of "1" (which is the border of open and closed hybrid regime), Freedom house scores (partially free from 2000), we can see the correlation between Chavez changing the industry control practices and regime further backsliding (figure 3.15). Polity IV scores (figure 3.6) indicates the regime backslide after the coup, strike, and Chavez taking control of national champion of Venezuela's economy, PdVSA.

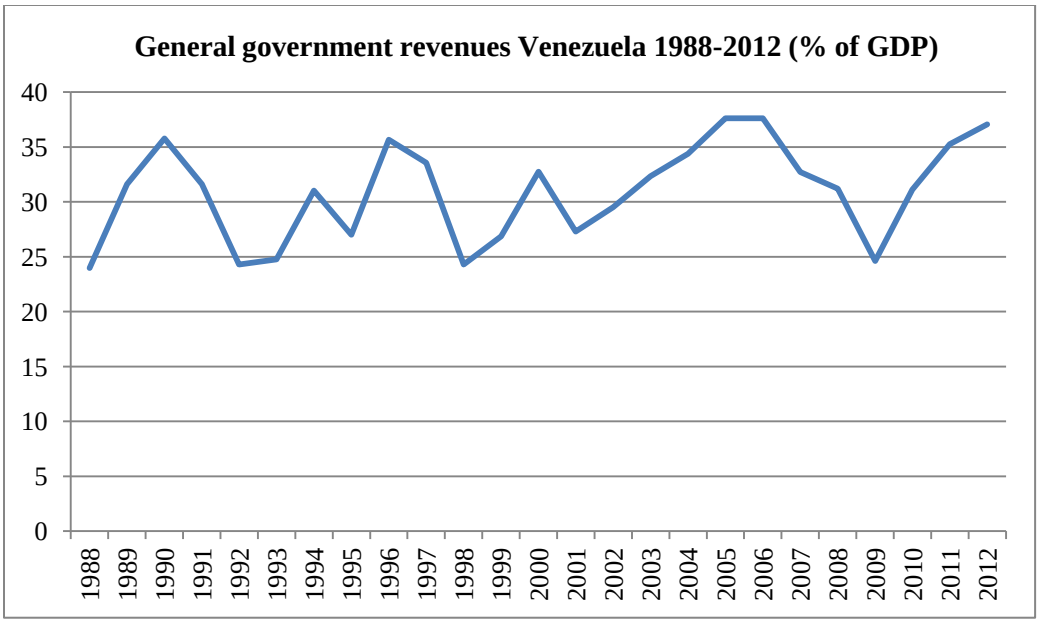
[141] Dinneen, 2012



Source: Freedom House data Freedom House scores interpretation: “1” to “2” – free, consolidated democracy; “3” to “5” - partially free, “3” – semi-consolidated democracy, “4” – transitional government or hybrid regime, “5” – semi-consolidated authoritarian regime, “6” and “7” - not free, consolidated authoritarian regime.

Figure 3.15: Venezuela Freedom House score 1999-2011

What Chavez did over the period of 1999-2003 was to acquire direct access of the executive branch to the main and most important resource of the country: hydrocarbons. Having changed the constitution, as well as obtaining control and being able to channel this oil wealth in its’ strategic interest: we see the dramatic increase of government revenues over the course of 2002-2006 years (mainly due to high oil prices, figure 3.5) (figure 3.16). Chavez was able to get rid of checks that were imposed on the executive branch before and dramatically increase the executive branch role. Loyal legislature, erosion of checks and balances, and pressure on judicial system – characterize the political system of Chavez. Yet judicial system of Venezuela in many cases was able to stand the pressure (court rules Chavez action of firing workers illegal), but it lacks implementation. Rule of law institution will not work if the government doesn’t respect it.

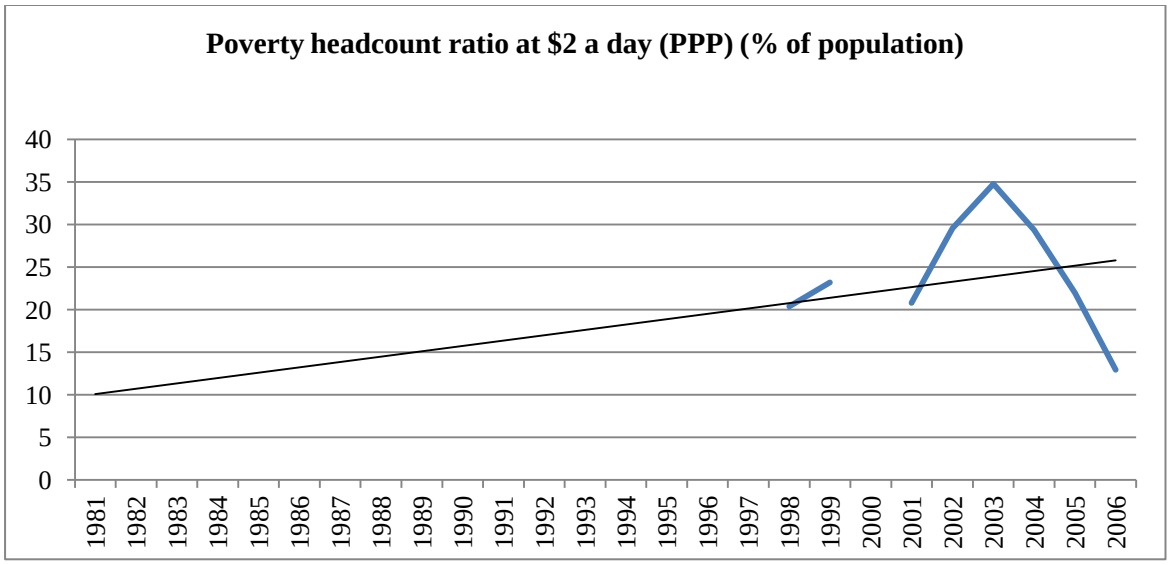


Source: IMF data

Figure 3.16: General government revenues, Venezuela 1988-2012

How he was able to concentrate political power and win so many electoral battles? The answer is social programs spending and clientelist practices, which he was able to implement thanks to the oil revenues being controlled. Official figures of government spending in the 2000's is not higher than in the previous decades, yet it doesn't account for Misiones, direct transfers to community councils, social production companies and cooperatives. According to Corrales calculations, which are based on Ministry of Finance data the unofficial spending level exceeds the official one by 5 to 7% of GDP over the course of 2000's (26% of GDP to 31% of GDP in 2004, 29% to 36% in 2006, 26% to 32% in 2008)[142]. As a result of massive government spending the poverty rate dramatically declined after 2003 (the overall trend until then was increasing poverty) (figure 3.17).

[142] Corrales p. 57



Source: World Bank data

Figure 3.17 Venezuela: poverty headcount ratio at 2$ a day

Internationally, oil revenues allowed Venezuela to adopt the foreign policy of balancing US influence in the region, and it became a large aid supplier for Latin and Caribbean countries. There are several aspects how oil revenues powered Venezuela's diplomacy: Venezuela's experts advise other Latin America government on contracts with foreign investors, television network in the hemisphere Telesur sponsored by the oil revenues, organization of Petrosur, and Venezuela's effort to initiate South American oil company, PetroCaribe program which provides discounted oil to the countries of Caribbean. Finally Venezuela's "Bolivarian alternative for the Americas", which prioritize social objectives[143].

At the same time, precedence of independent actors' control of the industry gave a power for the opposition to undertake actions against Chavez: the coup, strike, and recall referendum. When PDVSA assets were transferred in control of the executive branch, the opposition lost the base for the initiatives. Yet even with government having current control of the resources, the long tradition of democratic institutions keeps opposition afloat.

Why and how Chavez was able to still acquire control? Assessing the chain of event in Venezuela in 1999-2012 we can observe his clear strategy to concentrate the power, from uniting its' supporters to

[143] Hellinger 2006/2007, p. 56

gaining leverage from opposition moves. Similar to the checkerboard he was able to take advantage of the opposition move obtaining his main goal: ensuring his indefinite term in the office. What enables him to achieve this goal is institutions (personification of power, presidential system), polarization of the society, fragmentation of opposition, and clientelist practices.

Venezuela, even before Chavez had a presidential system, had a great role of the state in economic matter; Chavez coming to power reinforced this, using available institutional opportunities. Similar to constitutional system being already vulnerable due to presidential system tradition, arrangements of the most important Venezuela's economy engine, PDVSA, made it more vulnerable for the executive branch to acquire control (centralization reforms in the 1990's). Control of the oil industry, due to its' great important in Venezuela predetermined the outcome of Chavez/opposition battle and contributed to the regime backsliding. As Corrales argues, Chavez undermining the oil industry's autonomy in 1999-2003 was able to use it in 2004-2008 for constitutional changes[144].

Despite previously built institutions being important, like in Russia's case, oil industry control played a more significant role in regime backsliding in Venezuela. It was able to possess a substantial threat for the executive power, constraint on its' undemocratic moves and only liquidating checks imposed by the autonomy of oil industry Chavez was able to concentrate political power and implement constitutional changes.

What about the possibility of the intervening variable: the price of oil and political leadership? As for the first one, the price of oil, there is a correlation between a boom in oil prices (figure 3.5) in 2004 and regime backsliding, yet it was not until Chavez acquired control of the industry in 2003. Otherwise, the revenues would have a different effect, as the evidence from the Model 1 Venezuela illustrates. Political leadership is an important variable because Chavez was able to unite revolutionary forces and proceed with constitutional changes. However, he wouldn't be able to do so without having oil industry resource as his asset.

[144] Corrales 2011, p. 72

4 CASE STUDIES IMPLICATION

In order to test the theory that hydrocarbon control impacts the regime evolution, we checked for the mechanisms that were predicted to take place in two models (table 4.1). The first part of this hypothesis, that independent or private control of the hydrocarbon industry contributes to a country's democratization via taxation/accountability demand, the bargaining of independent actors which leads to the establishment of private property institutions and increased rule of law. Independent actors make socio-economic investments, and they also contribute to the development of independent media. In the first case, Russia in the 1990's, we find evidence of most of the mechanisms predicted. Although the evidence found in this research, in the case of Russia, supports many of the mechanisms described within the theory, it is important to note that bargaining institutions did not lead to the establishment of the rule of law due to the state being weak and because of government priorities of revenue-generating rather than institution-building. On the other hand, 1990's Russia had the independent media and contribution of private independent actors is direct (sources owned privately present the alternative view to the state sources). Some socio-economic development from the private investment is found in this case, yet because of uncertain domestic situation, majority of private owners preferred to ship their wealth overseas.

Venezuela's second case model 1 does not completely follow the prediction of the theory. Because historically the state was a "caregiver" and distributor of wealth, the taxation/accountability mechanism did not have to take place until the 1990's when oil revenues declined. During this time period government had to cut on its socio-economic projects (austerity program) and increase taxes (as we can see from the data of oil-related revenues, figure 3.8). This led to an increase in political activity and unrest, when citizens rejected traditional parties. The socio-economic investment was performed by the state distributing oil revenues. Additionally, property rights were guaranteed at this time by oil revenues (reconciling redistributive conflict), as well as the rule of law institution was also dependent on the presence of this buffer. The media enjoyed significant independence during Punto Fijo democracy. In the 1990's we can observe an increase in the taxation and mobilization of the citizens. Independent actors bargained with the

government throughout the history of PDVSA. It is possible that Venezuela's great dependence on oil revenues throughout its history (figure 4.1), as well as the fact that PDVSA is a national company, explain why the mechanism of socio-economic investment by actors did not occur.

In model 2 third case, Russia in the 2000's: all three mechanisms predicted by the theory took place. The state used hydrocarbon revenues to initiate socio-economic programs and employ its hydrocarbon industry to influence foreign policy goals. Consequently, opposition could not rally against the ruling. President Putin was also able to concentrate the power due to the super-presidential system established in the 1990's and negligence of the rule of law established by the government in the 1990's, which caused this institution to turn into "rulers' law"[145] in the 2000's.

Venezuela's case of model 2 1999-2012 also has all three characteristics. Gaining control of PDVSA, Chavez used hydrocarbon revenues to strengthen the executive branch by winning popular support through the enactment of generous social programs and his "soft balancing" foreign policy. Because the opposition lacked the appropriate resources, it couldn't effectively organize to compete with the standing president.

Table 4.1: Theory-testing results

Model 1: Independent control		
Mechanisms/cases	***Russia 1990's***	***Venezuela 1958-1999***
1)Taxation and demand for accountability	Yes	Yes (for 1990's)
2)Bargaining	Yes	Yes
3) Independent media	Yes	Yes
Socio-economic investment	Yes	No
Model 2 : State control		
Mechanisms/cases	***Russia 2000's***	***Venezuela 1999-2012***

[145] Goldman 2008

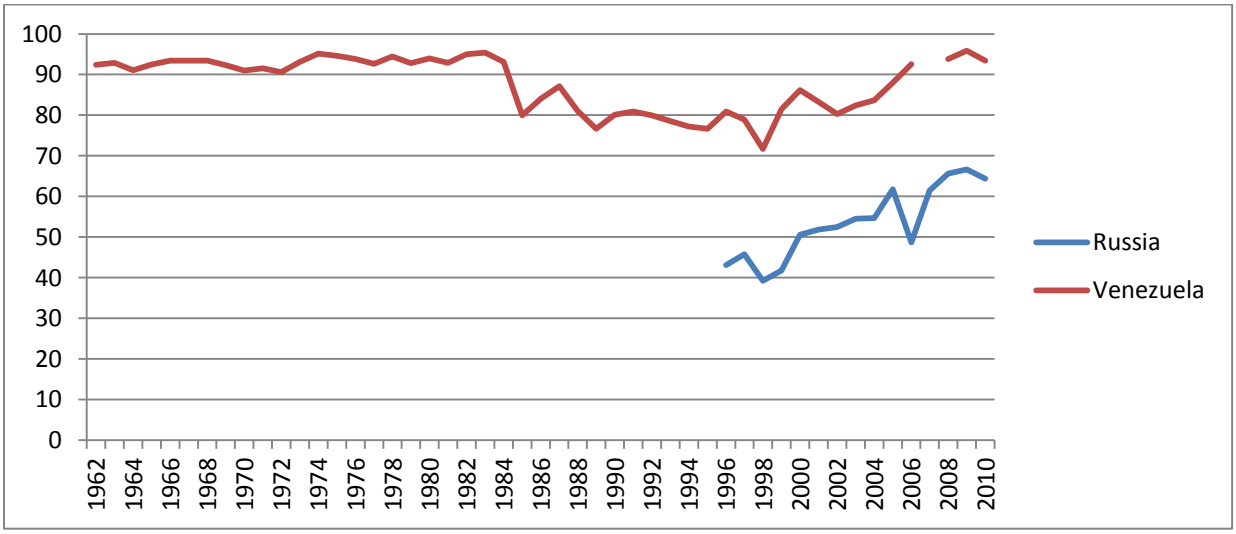
1) Government socio-economic programs	Yes	Yes
2) Balancing foreign policy	Yes	Yes
3) Inability for opposition to compete with government	Yes	Yes

Russia and Venezuela having completely different historical backgrounds experienced different trajectories of political and socio-economic development up to the 21st century, when their development paths converged. Two hybrid regimes of competitive autocracy in hydrocarbon-rich countries have similar mechanisms and somewhat similar policies. Both countries had experiences with neoliberal practices ("shock treatment" beginning of the 1990's), austerity measures and reversed trends of state control in the 2000's. The intervening variables: price of hydrocarbons (figure 3.5) and leadership play an important role in these similarities.

Beyond mere prices of oil and gas, the author argues that the growing importance of hydrocarbon fuels near the end of the 20th century contributed to the growing power of hydrocarbon rich countries. The prices of oil and natural gas wouldn't have played the role they did without the state acquiring control of the industries: Russia renationalized its hydrocarbon industries, while Venezuela obtained operational control. Political leadership and political program of leaders is important and precedes the industry control, yet the presence of hydrocarbons in these countries made it possible for them to have these programs. Both leaders came to power with ideas of using energy resources to advance their nation's interests: Putin came with the plan of energy resource being controlled by state companies, while Chavez - operational control of national company. Chavez placed more emphasis on domestic support through social programs and having a balanced foreign policy, while Putin employed hydrocarbons as a return of Russia to its status as a power on the world arena, now in status of "energy superpower". Putin himself advanced the interests of the industry abroad (negotiating with country's leaders the agreement and pipeline's plans). So-

cio-economic spending also took place in Russia during this time, but much less so than in the case of Venezuela (the inequality gap increased in Russia, unlike in Venezuela).

Several factors were controlled for in the theory. Let us consider each of these factors and see how they explain the cases presented. First of all, the oil-dependency vs. oil –abundance argument explains that countries which are highly dependent on hydrocarbon exports are less likely to be a sustainable democracy and will be vulnerable to regime backsliding. Although this can vary even for one country: resource-dependent country can become resource-abundant one and vise versa. Russia and Venezuela fit the most different systems designs for this variable (according to ratio of fuel export to total exports, figure 4.1). Because Venezuela is more resource dependent than Russia, it is predicted to have a more authoritarian outcome than Russia, according to T. Dunning theory. Yet the outcome is essentially similar, both regimes can be classified as a competitive autocracy. Polity IV and Freedom House assess them differently. Polity IV considers Russia's regime closer to democracy, while Freedom House evaluates Venezuela's as the one closest to "partially free" (Russia is ranked by Freedom House as "not free"). At least for these two cases we can conclude that resource-dependent and resource-abundant distinction is not significant[146].

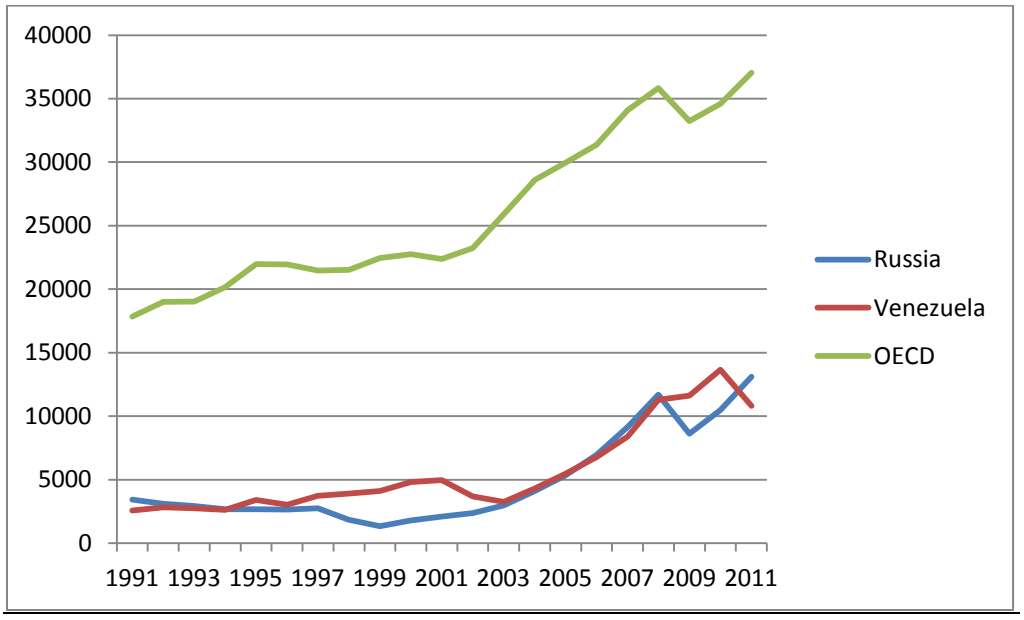


Source: World Bank data

Figure 4.1: Oil exports ratio to total exports in Russia and Venezuela

[146] Yet it doesn't eliminate to possibility of this variable to have an effect in other cases. It also might be that once energy exports exceed certain threshold (for example 40-50%), their effect on regime evolution becomes insignificant, once a country highly dependent on its revenues from energy sector. To confirm this hypothesis, large N studies are needed.

When considering GDP per capita, a higher GDP per capita should indicate a higher propensity that an increase in this figure would help offset the authoritarian effect that energy resource control has on political institutions, as argued by Treisman. In terms of GDP per capita, both Venezuela and Russia are considered middle income countries according to World Bank data (these countries were ranked 63rd and 55th respectively). The overall trends are very much similar: with some considerable difference in numbers over the period of 1997-2001 and reversed trend in number over 2008-2011. Both countries may attribute their GDP per capita growth to changes in oil prices. Treisman found that low-income and middle income countries since the 1980's have an authoritarian effect on oil revenue. Both Russia and Venezuela are considered middle income countries, thus the authoritarian effect is predicted for this group. Given the evidence we can conclude that GDP per capita is one variable that may affect the outcome.



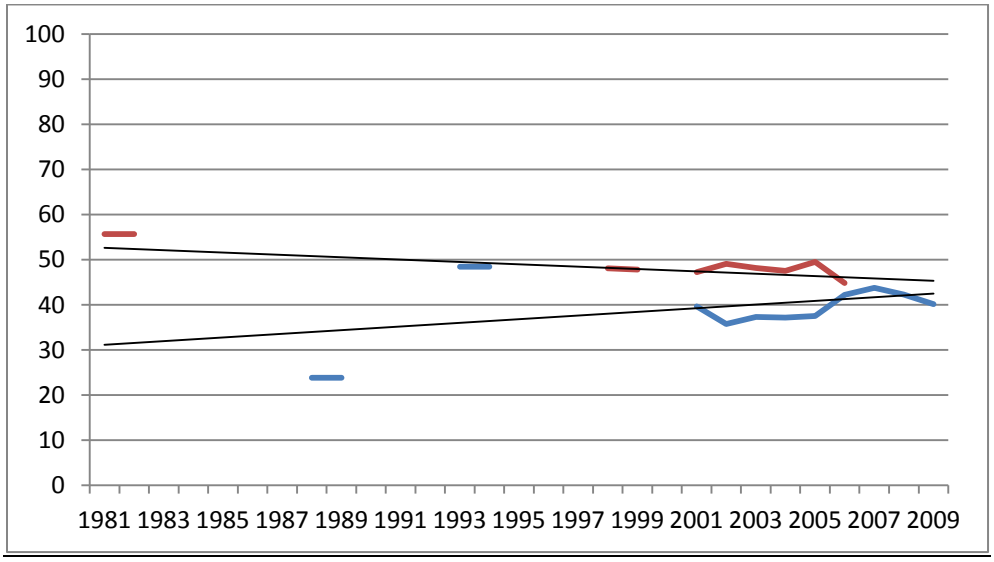
Source: World Bank data

Figure 4.2: GDP per capita in Russia and Venezuela (comparing to OECD countries, US$)

Let us consider another important control variable, inequality level, using the small amount of data that is available (figure 12). The inequality level in Russia had been historically low in Soviet Russia (for 1988 Gini index was only 23.8). However, it completely changed in the new Russia: inequality rocketed to high 40's in Gini index for 1992. The beginning of the 2000's showed a decrease in inequality level (48% in 1993 compared to 38% in 2001). Yet the general trend is upward and in 2009 Russia still had its

Gini index in the 40's, a high inequality. Venezuela, on the other hand, since1981 had a downward trend throughout the two decades: from the upper 50's to upper 40's (though we do not have data after 2006, can assume it is generally a downward trajectory).

Given the data that is available, it is possible that the inequality levels in contemporary Russia and Venezuela have converged by now. The effect of high inequality can be destabilizing due to redistributive pressures. If a country is resource-rich then the resource wealth can mitigate this and the elites will be less likely to oppose democracy. This concept holds for Punto Fijo Venezuela, while in Russia it has a reverse authoritarian effect. Increasing inequality and rising oil revenues did not generate societal tensions in Russia until recently (2011/2012). Rather oil revenues contributed to the distributive policies of the government and the consolidation of Putin's regime. Despite having a decreasing trend, Venezuela still has high inequality level. Declining oil revenues in the 1990's contributed to regime decline, while decreasing inequality combined with high oil revenues lead to hybrid regime consolidation (lower level of poverty contributes to H. Chavez popularity). Therefore, the inequality invariably has some explanatory power within the context of hydrocarbon revenues.



Source: GINI index

Figure 4.3: Inequality level in Russia and Venezuela

Having checked the results of the studies, as well as the intervening and control variables let's see if the issue of endogeneity has been resolved. In model 1 Russia, the economic and political reforms are intertwined. The change in the constitutional system came after privatization reforms. After these constitutional reforms, next part of privatization reforms began.

Venezuela's case is even more complicated. The democratic government chose to establish autonomous hydrocarbon company insulated from political pressures. In Model 2, both the Russia and Venezuela cases illustrate that backsliding into a hybrid regime category did not take place until after the state established control of hydrocarbon industry. Therefore, despite the statement that democratic governments may prefer the industry to be autonomous and autocratic to have control of it[147], the independent/state control variable is important for a regime to slide further into one or the other direction. This variable by itself cannot cause sharp changes that happen for those political regimes, rather it contributes to a gradual evolution into a competitive autocratic regime.

Thus, the control of independent or state actors matter. We can track chronologically the change in hydrocarbon regime control and regime evolution into a competitive autocracy. In both countries democratization periods were accompanied by independent actors controlling the industry. Authoritarian leaders saw the threat in the industry's independent actors and autonomy, and only by acquiring control of it, they were able to proceed with their constitutional reforms and consolidation of power. At the same time, Venezuela had this control-variable causation more distinctly than Russia, where institutional variables were more involved.

Moreover, the ownership has additive effect to control variable impact, and it matters in establishing strong political and economic institutions[148]. In comparing Russia and Venezuela we can observe that, although both countries democratic institutions proved to be rather weak, Russia did not revert to complete nationalization of its' economy (besides resource sector) or dramatic change its' political system

[147] Both leaders came to power with ideas of hydrocarbons to serve national goals.
[148] Such as property rights, fiscal regime, and politically – its' constitutional system

(bicameral legislature, for example[149]). The fiscal institutions of Russia proved to be more stable than those of Venezuela (what is reflected in recent GDP/capita figures). The reason for this difference is that when the oil industry was privatized in the 1990's, the political and economic system was formed as a result. Due to the smaller role of the state in the economy, a redistributive policy rather than distributive one was established. Political stability and fiscal austerity were now possible in Russia. Also, ownership matters more in Russia's case, as the regime slides into a more authoritarian category with state companies taking over a private company's assets.

Both of the countries had "shock therapy" policies in the 1990's, where similar fiscal austerity processes were carried out with different degrees of success. Due to the distributive nature and the role of the state as a "caregiver", reforms led the political system to change to a more socialist-oriented system. In Russia, where citizens never benefited from direct distribution of oil wealth, these reforms were actually carried out.

Second, it is important to consider whether domestic or foreign actors actually own the industry. Domestic ownership, as it is implied from Russia and Venezuela's cases contribute to regime democratization. Foreign ownership, on the other hand, does not contribute to democratization since the revenues are going to other countries rather than to domestic investment. One can argue that until 1976 the oil was foreign owned and still the democratic transition was possible. However, Chavez, despite limiting foreign firms involvement in later years, did not exclude it. Foreign firms did not possess the same type of threat to his regime as the domestic independent actors did.

Finally, institutions do indeed matter. In both cases, Russia and Venezuela, the regimes were able to slide into an authoritarian path due to weak institutions established in the 1990's (Russia), and the dismantling of institutions of the old system (Venezuela) and presidential system (both cases). Granting the executive branch with power and weakness of other branches allowed these regimes to take over the resources and consequently the control of the political system. The effect of institution's variable can be additive or, alternatively, resource control can be intervening in the institutions/regime backslide equa-

[149] 1990's political system already favored executive branch over other branches of government.

tion. Chavez was able to implement a greater degree of political change in Venezuela (constitutional changes), as compared to Putin in Russia, because the hydrocarbon resources in Venezuela were already consolidated into a single state-owned entity when he took power.

Future research should include a clarification of the role of institutions and control of resources. Using large N studies we can determine whether hydrocarbon resources are more likely to have super-presidential systems or in other words, have a strong executive branch and a weak legislature (excluding Middle East monarchies). It could be that the "resource curse" affects political institutions, making it more likely to have a strong executive branch. In this case the control of resources can be a constraint. However, even if independent actors control the industry, the state will still be prone to backsliding into authoritarianism.

In conclusion, hydrocarbon industry control is not the variable that can explain the regime changes which brought Chavez or Putin to power and initiate their political reforms. However, it can explain the regimes gradual sliding into a hybrid, more autocratic regime. Obtaining resource control allows a government to gain leverage and liquidates checks and balances otherwise being imposed on it.

At the same time, we should not be completely pessimistic about the future of democratic development in these countries. Russia's still mainly privatized economy can generate a new leader and challenger to Putin's rule. Venezuela has a long democratic history and over time with Chavez's distributive and imbalanced economic policy failure, the regime will take a different path.

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