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Cambridge Scholars Publishing

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This book first published 2021

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-5275-6076-7
ISBN (13): 978-1-5275-6076-5

To Blythe, Caleb and Anna, who have endured much over the last seven years to see this book to fruition; and to the late Dee Bradshaw, without whom the project would not have been completed.

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ACKNOWLEDGEMENTS

The Apostle Paul writes to the Ephesian church that they should be filled with the Spirit, 'giving thanks always and for everything to God the Father in the name of our Lord Jesus Christ' (Ephesians 5:20). I therefore begin by thanking God for sustaining me in bringing this book to completion.

I am deeply grateful to Professor Don Ross, who supervised my PhD thesis on which this book is built. I am privileged to have enjoyed access to your great mind and have learned more from you than you could imagine. I am similarly indebted to Professor Brian Levy, my co-supervisor. I have been shaped and sharpened by Brian's long history of grappling with the complexity of development, his intellectual acuity and passion for thinking accurately about these matters. I would also like to thank Dr Harry Stephan and Dr Ola Bello for their unwavering support and encouragement to start (and finish!) a PhD.

To my Mom, Debra, and my Dad, Euan, thank you for your unconditional love and support for me. You have encouraged me endlessly. To my sister, Catherine, thank you for being the best sister a brother could wish for. I am so proud of you, and very grateful for your support, prayer, and love through this journey.

To my extraordinary wife, Blythe, and our two precious children, Caleb and Anna, this book belongs as much to the three of you as it does to me. None of you thought that I would embark on a book project so soon after completing a PhD and starting a new job. Thank you for the sacrifices that you have made over the years for me to get to this point. Blythe, your patience, gentleness, support and encouragement have been more than any husband could hope for. I love you and am ever grateful to God for you. You have grown more beautiful in character and appearance over our eleven years of marriage.

To our friends and extended family, thank you for looking after my family so well while I've been on this sojourn. God has blessed me and Blythe with an amazing community to do life with, especially through Jubilee Community Church. Friends, you know who you are, thank you for praying for me faithfully all these years.

FOREWORD

PROFESSOR DON ROSS

UNIVERSITY COLLEGE CORK (IRELAND),
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Academics and journalists share a mission to chisel truth out of confusion and vagueness. But what they do with the truths they extract is almost the opposite. The academic laboriously bundles them into theoretical frameworks designed to protect them from the corrosions of direct contact with politics and special interests. The journalist strives to make truths relevant to the lives and plans of the widest possible audience. Thus academics seldom make good journalists – they tend to seem boring and obsessive to outsiders – and journalists often annoy academics because they obscure the boundaries between knowledge and entertainment.

Every so often, however, a person appears who finds a way to resolve the tension and combine the journalist's art with the academic's rigour. This is earned through practice, not acquired by magic. Ross Harvey is one of South Africa's best journalists on matters of political economics and biodiversity conservation. He has been honing skills in ferreting out and making sense of murky political motivations and manoeuvres, then explaining them to puzzled spectators, for years. He is also, a bit more recently, an academic, having earned a PhD in 2019 from the School of Economics at Africa's highest ranked institution of higher learning, the University of Cape Town.

I supervised Ross's thesis. It was a rare pleasure to midwife the chapters of an academic who knows how to truly unfold a narrative and compel even the busiest reader to keep turning pages.

Now, thanks to this book, readers at large get to enjoy what I did, in its fully polished form. Ross's material deserves the application of skills like his. The political dynamics of large countries with finances dominated by flows and ebbs of petro-dollars are dense and hard to penetrate. Many agents have strong incentives to keep the curtains drawn. To say that politics fuelled by oil revenues are opaque is thus an under-statement. Penetrating the fog calls for the doggedness and also the scepticism about outward appearances characteristic of a sharp investigative journalist. It also requires skill in assembling evidence and deductions into a coherent story. Ross applies just such talent to the recent political history of two complicated countries.

But serious students of political economy and global development don't just want riveting reconstructions. They need also to be confident that the source is objective and unbiased. Ross never forgets that an academic's first responsibility is to add to the permanent archive of human knowledge. To be a source of knowledge, a story must be precise in its details, stick resolutely to grounding in firm evidence, and avoid waffle. The story in the book has all of those scholarly virtues. There are many points of fact here that the reader cannot find elsewhere.

Nigeria and Angola are both large, important countries. With their growing populations they will become steadily more so, regardless of the future economic significance of fossil fuel. Any solid understanding of the 21st century will need to prominently include them. Thanks to Ross's work and his unusual blend of talents, their politics and economics will not remain in shadows.

ABBREVIATIONS

AD	Alliance for Democracy
AFRC	Armed Forces Ruling Council
AG	Action Group
ANOCs	Asian National Oil Companies
ANPP	All Nigeria People's Party
APC	All Progressives Congress
APP	All People's Party
CIF	Chinese International Fund
CNOOC	Chinese National Offshore Oil Company
COMD	Crude Oil Marketing Division
CSIH	China Sonangol International Holding Ltd.
DCA	Domestic Crude Allocation
FAA	Forças Armadas de Angola (Armed Forces of Angola)
FAPLA	Forças Armadas Populares de Libertação de Angola
FMG	Federal Military Government
FNLA	Frente Nacional de Libertação de Angola
GDP	Gross Domestic Product
IMF	International Monetary Fund
ING	Interim National Government
IOCs	International Oil Companies
KNOC	Korean National Oil Company
LAO	Limited Access Order
LCVs	Local Content Vehicles
MPLA	Movimento Popular de Libertação de Angola
NBC	National Broadcasting Corporation
NCNC	National Council of Nigerian Citizens
NE	Nash Equilibrium
NEPU	Northern Elements Progressive Union
NIE	New Institutional Economics
NNA	Nigerian National Alliance
NNDP	Nigerian National Democratic Party
NNOC	Nigerian National Oil Company
NNPC	Nigeria National Petroleum Company
NPC	Northern People's Congress
NRC	National Republican Convention
NRGI	Natural Resource Governance Institute

OAO	Open Access Order
PCA	Partido Communista de Angola
PDP	People's Democratic Party
PEP	Politically Exposed Person
PIDE	Polícia Internacional e de Defesa do Estado
PLUA	Partido da Luta dos Africanos de Angola
PPMC	Pipelines and Product Marketing Company
RFR	Right of First Refusal
SAP	Structural Adjustment Programme
SDP	Social Democratic Party
SMC	Supreme Military Council
SSI	Sonangol Sinopec International
UNITA	União Nacional para a Independência Total de Angola
UPA	União das Populações doe Angola
UPGA	United Progressive Grand Alliance
ZANU-PF	Zimbabwe African National Union-Patriotic Front

CHAPTER ONE

INTRODUCTION

1.1 Introduction

One of the major puzzles of our time is why countries well-endowed with natural resources continue to be associated with dismal development outcomes, corruption and poor governance. While the literature on this 'resource curse' is now voluminous, specific comparative anatomies of how the curse operates in different contexts are few and far between. The relationship between resources and development plays an integral part in the nature of how states evolve but is still poorly understood. Similarly, much of the literature in the field of political economy divides the world into democracies and non-democracies. This binary lens often suppresses illumination. A more accurate description of most countries is as some form of autocracy. How and why they differ is an under-explored field. This book makes a contribution to explaining autocratic heterogeneity by comparing Angola and Nigeria, Africa's largest two oil producers. Both have been autocracies for most of their post-independence history.

The work is located within a number of different (and sometimes disparate) literatures and aims to draw a thread through them. Acemoglu and Robinson's latest contribution, the *Narrow Corridor* (2019), demonstrates that the space between necessary state centralisation – to exercise functional governance – and a strong citizenry – to hold Leviathan to account – is thin. Countries that thrive find and sustain this tension. An electorate which holds the state accountable is crucial to success, but a capable state must nonetheless be allowed to develop. This is an expansion of their earlier contribution, *Why Nations Fail* (2012), which demonstrates that inclusive institutions are the key to producing broad-based economic benefit and sustaining civil liberties. The authors recognise, however, that not much is known about *how* to craft these ideal institutions. History can nonetheless provide some useful lessons, especially about what *not* to do.

This book is particularly interested in the role of oil in institutional formation and evolution in Angola and Nigeria. In this respect, it contributes to the 'resource curse' literature (Hendrix and Noland 2014) and, within that, the 'oil curse' literature, of which Michael Ross's *The Oil Curse* (2012) and Leif Wenar's *Blood Oil* (2015) are among the leading contributions. Oil wealth in weakly institutionalised states tends to undermine development instead of catalysing it. Where oil rents fund unproductive patronage, inefficiency persists and social development collapses (Acemoglu, Ticchi, and Vindigni 2011). Where oil rents are productively invested in human and physical capital, positive welfare effects accrue. Examples of the latter are in short supply (Larsen 2006) and are typically associated with countries that possessed strong institutions at the time of discovering oil wealth.

Given the importance of better understanding the mechanics of authoritarian rule, the book draws prodigiously from Milan Svolik's seminal contribution, *The Politics of Authoritarian Rule* (2012). Game theory underpins the book's efforts to make more parsimonious sense of the divergent historical evolution of Angola and Nigeria's institutions than the relatively thick explanations that currently dominate the literature. *Analytic Narratives* (Bates et al. 1998) provides the methodological template. A core element of the book is to elucidate what Angola and Nigeria's oil-for infrastructure deals with Asian National Oil Companies (ANOCs) between 2004 and 2007 tell us about their respective political structures. In this, it contributes to the 'China in Africa' literature and the role of Chinese involvement in shaping political economy outcomes. The book concludes with an explanation for why Angola's ruling party eventually upended its dictator, José Eduardo dos Santos, after 38 years of iron-fisted dictatorship. It also explains how Nigeria inadvertently moved towards a more open political system, albeit still a long way off from the narrow corridor.

1.2 Chapter outline

The remainder of this first chapter explores why oil wealth has a perilous relationship with development. Because of the importance of institutions in shaping the relationship, it also examines why institutional quality matters more generally for economic performance. It then provides a framework through which to understand why different political outcomes occurred in Nigeria and Angola, two similarly oil-wealthy African states.

Chapter two presents comparative analytic narrative (Bates et al. 1998) as a means of providing the most accurate and reliable explanation for institutional divergence between similarly oil-wealthy nations in Africa.

Chapter three presents a game-theoretic model that accounts for why some authoritarian rulers endure for decades while others last only a few months (Svolik 2009). I adapt the model for application to the weakly institutionalised contexts of Angola and Nigeria to explain – over the subsequent three chapters –dos Santos managed to become a deeply entrenched autocrat, but no Nigerian leader proved able to *achieve* (in a rational rather than moral sense) dictatorship. Sani Abacha was the only equivalent Nigerian contender, but his regime lasted only five years versus the 38-year rule of dos Santos.

Chapter four provides historical context for Angola and applies the model from independence in 1975 to the end of the civil war in 2002. Angola's inherited institutions were deeply extractive. The chapter accounts for dos Santos' unusually long autocratic tenure.

Chapter five does the same for Nigeria but applies the model from independence in 1960 to the end of Olusegun Obasanjo's first term of civilian rule in 2003 (he had been a military ruler from 1976 to 1979). Nigeria's institutions became more politically inclusive over time, though the progression was hardly linear, and the elite bargain remains relatively personalised. The chapter accounts for leadership instability and institutional volatility in Nigeria.

Chapter six analyses the oil-for-infrastructure deals that were on the table between ANOCs, and the Angolan and Nigerian states respectively from 2004 to 2007. It explains the respective success and failure of these deals and why they had a surprisingly large impact on subsequent political economy divergence.

Chapter seven summarises the main findings of the book and provides a brief description of the post-2007 political economy trajectories in Angola and Nigeria that unfolded until late 2014, when the oil price crashed, and how the respective political settlements changed thereafter. It explains why dos Santos lost power and why Nigeria became relatively more politically open.

1.3 The Paradox of Plenty and the Perils of Unearned Income

Natural resources, intuitively, portend a development blessing. Why, then, do we face what Terry Lynn Karl (1997) called a *Paradox of Plenty*? It turns out the answer is largely associated with the perils of unearned income

(Smith 2008) (rents) and the negative impact this has on institutional formation. This book defines rents as “returns that exceed the opportunity cost of resources that might otherwise be deployed in a competitive market” (Levy 2014, 23), the acquisition of which incentivises economic agents and shapes the nature of the elite bargain – how elites overcome the problem of violence and pool rents, and how they then generate and distribute rents to maintain power (North, Wallis, and Weingast 2009).

The quality of a country’s institutions is among the primary determinants of the likely development impact of natural resource wealth (van der Ploeg 2011). Different types of resources also matter, especially insofar as they contribute to state formation (or lack thereof). This, in turn, is a function of their appropriability, or how easily lootable they are (Snyder 2006; Boschini, Pettersson, and Roine 2007; 2013). Andersen and Aslaksen (2013) show, for instance, that oil and non-lootable diamonds are positively associated with longer autocratic tenure, whereas other minerals are associated with shorter regime duration.

Institutional quality, which conditions the impact of natural resources on economic performance, depends on how a state might appropriate resources to itself (Vahabi 2018). Vahabi draws the reader back to insights provided by Auty (2001b; 2001a), who initially coined the term ‘resource curse’ and showed that point-source resources such as oil fields may encourage oligarchic predatory governments. Resources are not ‘good’ or ‘bad’ in themselves, but outcomes are determined by ‘the vigour of political competition and the nature of political elites’ (Vahabi 2018, 418). Physical characteristics of a resource and their geographic locations, similarly, are not unique determinants of whether a resource is mobile, and mobility is not to be confused with appropriability.

Oil rents have had a peculiarly negative effect on institutional formation in recent history. Twenty five years after the oil price boom of the 1970s, most oil exporting countries were in crisis, especially capital-deficient ones: “[p]lagued by bottlenecks and breakdowns in production, capital flight, drastic declines in efficiency, double-digit inflation, overvalued currencies and budget deficits” (Karl 1999, 32), which undermined export competitiveness in the manufacturing sectors. The high hopes of development that had infused the formation of the Organisation for Petroleum Exporting Countries (OPEC) were dashed and political stability suffered as a result.

Scholars Diamond and Mosbacher (2013, 6) noted that not a single African country had been able to keep oil money from being captured by a small elite: "Every one of the 12 current oil exporters currently falls into the bottom half of the UN's Human Development Index (HDI). According to the World Bank, more than a tenth of all children born in oil-rich African countries die before the age of 5, double the global average".

The most compelling explanations for these poor outcomes focus on how oil wealth affects political dynamics, as political institutions shape economic institutions, which in turn shape future political equilibria (Acemoglu, Johnson, and Robinson 2005). Michael Ross (2001) used econometric techniques to examine the impact of oil wealth on democracy by testing three previously hypothesised causal mechanisms – the *Rentier Effect*, the *Repression Effect* and the *Lack of Modernisation Effect* – examined below.

1.3.1 Rentier effect

The 'rentier effect' hinders the development of inclusive politics through three channels. First, through decreased accountability due to a lower demand for government taxation (the *taxation effect*), described later by Herb (2005). When governments derive sufficient revenue from oil deals, they tax citizens less, severing the accountability link. Diamond and Mosbacher (2013) promote the policy of cash transfers to citizens that governments can then tax, so re-creating that accountability link. Why political elites would agree to such a scheme is, unfortunately, not explained. [1] An alternative view is that taxation is likely less about representation and accountability than it is about providing sufficient revenue for governments to overcome the incentive to engage in predation (Bates 2008). This book sides with Bates in this respect.

A second aspect of the rentier effect suggests that oil revenue is spent on extending patronage, which inhibits latent pressure for democratisation or increases incumbents' re-election probability in weak democracies (the *spending effect*). Recipients of state largesse or public sector jobs have a reduced appetite for incurring the transaction costs of fighting for political reform in the direction of democracy. Robinson, Torvik and Verdier (2006, 466) conclude that:

> …[t]he extent to which this phenomenon actually leads to a resource curse (which we defined as a situation where a resource boom leads to lower Gross Domestic Product [GDP]) depends on the quality of institutions. In countries

[1] For a critique of this policy recommendation, see Harvey (2014a).

> with institutions which limit the ability of politicians to use clientelism to bias elections, resource booms tend to raise national income. When such institutions are absent, perverse political incentives may dominate and income can fall—there is a resource curse.

A final element of the rentier effect concerns group formation (the *group-formation effect*), which proposes that governments distribute rents to prevent the formation of economically and socially independent groups, which constitute a threat to elite power preservation.

1.3.2 Repression effect

Resource wealth allows autocratic governments to spend more on internal security to block the population's democratic aspirations (Ross 2001, 335). In the absence of pre-existing institutions of accountability, incumbent elites find it less costly to repress demand for political reform than to democratise. The state invests instead in strengthening internal military and security to prevent civil association that may threaten autocratic survival. Incipient ethnic conflict may also incentivise governments to increase the size of the military to impede revolt (Hodler 2006).

1.3.3 Lack of modernisation effect

Rooted in modernisation theory (Inglehart 1997), this hypothesis suggests that oil wealth inhibits progressions associated with transitions to democracy, namely education and occupational specialisation. Increased education levels provide a foundation for articulating preferences for political reform in the direction of participatory democracy. Occupational specialisation produces a "more autonomous workforce, accustomed to thinking for themselves on the job and having specialised skills that enhance their bargaining power against elites" (Inglehart 1997, 163). Incumbents with access to resource rents have little incentive to provide high-quality education that might equip the population to demand political reform. Resource-led growth also undermines occupational specialisation that may otherwise have developed in the absence of resource exports. Commodity exports strengthen the value of the currency, which undermines the competitiveness of other export sectors, especially manufacturing. This is a variant of the *Dutch Disease* arguments common in the literature (Rajan and Subramanian 2011).

Together, these arguments suggest that oil wealth is likely to inhibit the development of political institutions that might otherwise provide a platform for sustained economic development.

1.4 Debates over the existence of a 'resource curse'

Testing each of the above mechanisms, Ross finds strongest evidence for the *Rentier Effect*, a combination of taxation, spending and group-formation effects. Oil wealthy countries have lower tax rates than their counterparts while "higher personal and corporate taxes are strongly associated with more democratic government" (Ross 2001, 348). Evidence also exists for the spending effect, which has a longer duration than the taxation effect: "the larger the government, the less movement toward democracy over the following five years" (Ross 2001, 349). For the group-formation effect, Ross found only indirect evidence.

On the *Repression Effect*, Ross finds that oil exports are generally both positively and significantly associated with increased military spending. The exact reason is not apparent from the regressions. However, ethnic tension is not significantly associated with increased military expenditures.

With regard to the *Modernisation Effect*, Ross's (2001) regressions indicate that while occupational specialisation is positively and significantly associated with democracy, "the evidence that oil and mineral wealth [negatively] influence occupational specialisation, is somewhat weak" (2001, 354).

However, the "three effects may interact in pernicious ways, creating a 'resource-trap'" (Ross 2001, 357) as the overall result. For example, *Modernisation* and *Spending Effects* may occur simultaneously. Governments can subsidise education and other services without a concomitant growth in the manufacturing and services sector. Reform is thus hindered by limited economic opportunity and governments' propensity to stifle political dissent.

Haber and Menaldo (2011) critique Ross's work on the grounds that extant cross-country regressions assume random effects and are run on panel datasets with relatively short time dimensions. Natural resource reliance, in their view, is not an exogenous variable, rendering cross-country regressions an inadequate strategy for establishing causation. Omitted variable bias may drive the results through unobserved country-specific and time-invariant heterogeneity. They developed more historically distant datasets and employed time-series-centric techniques to test whether there is, in fact, a relationship between resource reliance and regime type within countries. Both on a country-by-country basis and across several different panels, Haber and Menaldo assert that increases in resource reliance are not associated with authoritarianism. In fact, they go so far as to suggest that in many specifications, there may exist a conditional "resource blessing" (2011, 21).

In response, Ross and Anderson (2014, 995) suggest that

> … they might be correct for the period before the 1970s, but since about 1980 there has been a pronounced resource curse. […] The powerful anti-democratic effects of oil since the late 1970s are hence obscured by the weaker relationship between oil and democracy in the 1800-1975 period. […] We also show that when oil income is allowed to affect regime types over three, five, or seven years, rather than a single year, these anti-democratic effects become much larger and emerge earlier.

Haber and Menaldo (2011) argued that because most oil-wealthy countries have become more democratic over time, there is no resource curse. Andersen and Ross (2014) point out that valid inference requires an examination not only of the 'treatment' group but also of a comparable 'control' group. While Haber and Menaldo (2011) suggest that oil-wealthy countries have grown slightly more democratic over time, the point remains that they made far slower progress towards democracy than the non-oil states (the 'control' group). Finally, the argument that the oil curse hypothesis is time-specific does not render the causal inference invalid, as all relationships of interest in political economy are time-specific in one way or another.

Shortly prior to Andersen and Ross's (2014) response to Haber and Menaldo (2011), Wright, Frantz and Geddes (2013, 287) wrote that "conventional wisdom about the political resource curse holds that oil-rich autocracies can use their wealth to co-opt their citizens, buy security forces to repress them, or both". Oil-rich autocracies – through these means – therefore stay in power for longer than their resource-poor counterparts (Jensen and Wantchekon 2004; Jørgen Juel Andersen and Aslaksen 2013). Wright, Frantz and Geddes (2013) observed, however, that most research on the political implications of oil wealth only considered transitions from autocracy to democracy instead of the more common place transition of one type of autocracy to another. As recently as 2013, the resource curse literature had yet to seriously consider autocratic regime transitions. Wright, Frantz and Geddes (2013) found support for the claim that higher oil wealth increases autocratic regime survival but agreed with Haber and Menaldo (2011) that there is little evidence that decreasing oil income renders autocratic regimes more likely to democratise. Rather, they show that rising oil wealth decreases the likelihood that a regime would be toppled by groups that would build new autocracies if they were able to defeat the incumbent. They also found evidence that oil income increases military expenditure, aiding increased repression and therefore autocratic consolidation.

Importantly for this book, oil rents bolster autocratic regimes, not by quelling democratic opposition, as typically assumed in the literature, but by suppressing challenges from future autocrats – normally regime insiders (Wright, Frantz, and Geddes 2013). Consistent with other findings on autocratic survival (Svolik 2009; 2012), external threats are not the primary factor that determine autocratic tenure duration. Rather, insiders like the military and the intelligence services are the key players. Increasing oil rents over time reduces the risk of military takeover. This, however, raises a question of why similarly oil-wealthy nations have divergent political experiences in terms of regime transitions. Some (in similar contexts) experience an uneven evolution towards more open political orders (for example, Nigeria), whereas others experience autocratic entrenchment (Angola, for instance). This book answers that question.

1.5 Institutions

Positively, and contrary to the case in African petro-states, countries that possess strong political and economic institutions at the time of discovering oil wealth (like Norway) tend to avoid resource traps (Wenar 2015; Larsen 2006; Torvik 2009). This presupposes that authoritarianism is associated with weak institutions. Strong institutions maintain separation of powers, limit the ability of politicians to unduly influence election results and constrain the potential abuse of executive power. When they are absent, perverse political incentives exist for elites to substitute growth-enhancing policies for institutional manipulation and corruption to improve their probability of remaining in power (Sarr and Swanson 2012).

The consensus around the importance of institutions follows in the tradition of work begun by Ronald Coase (1937), the late Douglass North (1968, 1994) as well as Mantzavinos, North and Shariq (2004) and Oliver Williamson (1973), now widely referred to as the New Institutional Economics (North 1986; Ménard and Shirley 2011) (hereafter NIE).

1.6 Do Institutions Really Matter for Growth?[2]

In 2001, Acemoglu, Johnson and Robinson (hereafter AJR) sought to empirically establish the fundamental causes of large cross-country differences in income per capita. Although it was self-evident that countries with better institutions perform better economically, owing to higher levels of investment in human and physical capital, supporting statistical estimates were lacking. It was possible to argue reverse causality – wealthier countries could simply afford better institutions. Chang (2011) argued this as recently as 2011, though it was adequately refuted in the same volume of the journal by Keefer (2011). AJR's methodological challenge was to find a source of exogenous variation in institutions, without which causation could not reliably be established. Using "mortality rates expected by the first European settlers in the colonies as an instrument for current institutions in these countries" (Acemoglu, Johnson, and Robinson 2001, 1370), they found that colonies where Europeans faced higher mortality rates were substantially poorer today than colonies which were less perilous for Europeans. Mortality rates were employed as an instrumental variable to establish exogenous variation in institutional formation. Lower mortality rates led to higher settlement rates, which led to better institutions, exemplified primarily in lower risk of property expropriation.

A strong correlation was found between the quality of early and present-day institutions, suggesting a high degree of persistence: "[m]ortality rates faced by the settlers more than 100 years ago explain over 25 percent of the variation in current institutions" (Acemoglu, Johnson, and Robinson 2001, 1371). The historical record substantiates the empirical work. Settlers in places with lower mortality (such as the US, Australia and New Zealand) adopted institutions that protected property rights, enforced the rule of law and encouraged investment. Settlers in places with higher mortality, such as Congo or Ghana, established "extractive" institutions, "with the intention of transferring resources rapidly to the metropole. These institutions were detrimental to investment and economic progress" (Acemoglu, Johnson, and Robinson 2001, 1395). Discount rates tended to be higher for elites in regions with higher mortalities, hence the increased likelihood of extractive institutions. In contrast, colonising elites incentivised to settle in places with lower mortality were more likely to invest in establishing institutions that enhanced long-run economic performance. Rates of extraction of natural

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[2] A large portion of this section is adapted from Harvey (2014b).

resources would be more efficient in those contexts, enabling the use of that wealth to diversify economies.

AJR hypothesised three mechanisms by which extractive institutions persist. First, establishing institutions that limit government power and respect property rights is costly. Maintaining inherited extractive institutions is less costly for elites than reform (Acemoglu, Johnson, and Robinson 2001, 1376). This appears to hold firm especially when natural resource wealth is available. Mineral and hydrocarbon wealth in particular, being finite, combined with the pre-existence of extractive institutions, may aid elite rent-acquisition from those resources to either build wealth for retirement or to improve the probability of staying in power through elections or repression (or some combination thereof). Second, small elite groups may have a greater incentive than large elite groups to employ an extractive strategy, as the rent returns per capita are higher in a small group. Third, if investments have been made in physical and human capital, elites are more likely to support institutions that ensure economic returns. The converse also holds.

Glaeser et al. argued, though, that at least part of what AJR's settler mortality instrumental variable captures is the modern disease environment (Glaeser et al. 2004, 290). The instrument may, therefore, be correlated with human capital, reflecting the knowledge that settlers brought with them to the colonies, rather than constraints on the executive (a political institution) per se. They do not doubt that institutions are important but argue that the limitation of econometric techniques does not allow AJR the conceptual or empirical means required to show that political institutions necessarily precede and fuel human capital formation. Glaeser et al.'s results (2004, 297) "do not support the view that, from the perspective of security of property and economic development, democratization and constraints on government must come first."

In the same edition of the *Journal of Economic Growth*, however, Rodrik, Subramanian and Trebbi (2004) find that the quality of institutions trumps everything else in determining whether geography, trade integration or institutions can best account for cross-country variation in national income levels. Institutional quality has a positive effect on trade integration, and geography exerts a significant effect on the quality of institutions, which corresponds with AJR's findings. By controlling for trade integration, something absent from AJR's original model, Rodrik, Subramanian and Trebbi's (2004) findings strengthen AJR's conclusion, but with some important qualifications. Their primary criticism of AJR's 2001 paper is that it does not sufficiently differentiate between "using an instrument to identify an exogenous source of variation in the independent variable of interest and laying out a full theory of cause and effect" (2004, 154). They are nonetheless convinced that the settler mortality instrument is a valid means of identifying exogenous variation in institutions, and not, as Easterly & Levine (2003) would have it, a geographical determinant of institutions. Emphasising this distinction, Rodrik, Subramanian and Trebbi caution against either a colonial view of development or a geography-based theory of development.

By 2012, Acemoglu and Robinson (2012, 377) favoured the colonial view, at least for explaining Africa's relatively slow growth:

> The structures of colonial rule left Africa with a more complex and pernicious institutional legacy in the 1960s than at the start of the colonial period. The development of the political and economic institutions in many African colonies meant that rather than creating a critical juncture for improvements in their institutions, independence created an opening for unscrupulous leaders to take over and intensify the extraction that European colonialists presided over. The political incentives these structures created led to a style of politics that reproduced the historical patterns of insecure and inefficient property rights under states with strong absolutist tendencies but nonetheless lacking any centralized authority over their territories.

1.7 Institutions, human capital and development

Two years after *Why Nations Fail* (2012) was published, Acemoglu and Robinson, with Gallego (2014) (hereafter AGR) addressed the criticism from Glaeser et al (2004) that AJR had put the institutional cart before the human capital horse. The authors provided a historical survey of human capital endowments taken to the American colonies and showed that Europeans appear to have brought more human capital per person to their extractive colonies than their settler colonies with inclusive institutions. Higher rates of education in the US today, for instance, appear to be a function of early institutions that incentivised mass schooling, institutions which were never established in Peru or Mexico. This refutes the view that lower mortality rates are inadvertently capturing higher levels of human capital.

Human capital, proxied by average years of schooling (exogenous if regressed by itself) or instrumented by Protestant missionary activity in the early 20th century – missionaries established schools to encourage reading of the Bible (Woodberry 2012) – appears to be a significant determinant of long-run development (returns in the range of 25–35% of one more year of schooling to GDP per capita today).[3] However, this calls for a direct comparison with studies that identify the contribution of one more year of individual schooling on individual earnings, typically estimated in the range of a 6–10% return. "In theory and reality, these two numbers should be more tightly linked" (Acemoglu, Gallego, and Robinson 2014, 879–80). The discrepancy could be explained if there was evidence for large human capital externalities, but AGR show that the existing evidence does not support this view. Regarding Glaeser et al.'s (2004) critique specifically,

> Once we control for the historical determinants of institutions and human capital, or simultaneously treat both variables as endogenous, the estimates of the effect of human capital on long-run development decline significantly … In contrast, the impact of institutions on long-run development remains qualitatively and quantitatively robust to whether human capital is included in the regression (and treated endogenously) or historical determinants of education are directly controlled for (Acemoglu, Gallego, and Robinson 2014, 880).

AGR therefore confirm the original AJR findings that institutions are the fundamental cause of long-run development, working through human capital in addition to total factor productivity. Future research, they suggest, should carefully examine the interaction between institutions and human capital formation.

Bates and his co-authors (2013) support AJR's view that democratization and constraints on government must precede other priorities if security of property and economic development are to be achieved. Empirically, in Africa at least, political reform in the direction of democracy precedes (and causes) increases in GDP per capita through changing political incentives. Incentive changes provoked policy changes, supporting the general view of the NIE that the structure of political institutions influences the performance of economies.

With regard to the impact of natural resource endowments on economic performance, two influential papers (Mehlum, Moene, and Torvik 2006b; 2006a) contest the idea that geography has some innate effect on countries' economic growth trajectories. Rather, institutions play the determining role: if institutions promote rent capture by a narrow elite, natural resource wealth tends to drive aggregate income down; if they are 'producer-friendly', they

[3] For an important contribution in this respect, see Woodberry (2012), as his work is mentioned extensively by AGR (2019) for shaping their response to Glaeser et al. (2004).

are likely to raise aggregate income. These effects are amplified by the quality of the institutions at the time of discovering resource wealth. The arguments that initial institutional quality is decisive in explaining development outcomes are substantively different from Sachs and Warner's (1995) early contribution to the debate, which found that a substantial natural resource endowment could be suboptimal for growth prospects after controlling for trade policies and initial income levels. Sachs and Warner's work argued explicitly that the effect of institutional quality was insignificant.

1.8 Institutions not a silver bullet

Cross-country regressions, as indicated above, have produced important findings, but are unable to provide the specific insight required for successful development policy application. They tend to produce recommendations that are too broad and therefore insufficiently incentive-compatible with the distribution of power in varying local contexts. More work is required to detail the anatomies of how oil rents affect development outcomes in context-specific cases. Comparative casework may generate knowledge that is more accurate and reliable to inform policymaking at country level. As Levy (2014, xiv) explains, this "takes the form of a 'good fit' approach to development strategy – a middle ground between 'one-size-fits-all' best practices and the view that every country is unique so needs an entirely unique set of policies". A comparative case study (for instance between Angola and Nigeria) allows policymakers to understand how relative political stability evolved in the former but not in the latter. Correctly understanding the distribution of power and what type of regime has evolved is likely to lead to improved policy choices.

Resource rents tend to become available through two channels: from the direct sale of commodities or through corporate revenues handed to the state, or some combination thereof. This highlights the importance of understanding the nature of corporations in the extractive industries, as their extractive and selling operations necessarily contribute to the development impact of resource wealth through affecting political equilibria. Much of the literature either avoids or overlooks this fact.

Confirming that institutional quality is the most important channel through which resource rents impact development does not mean that policymakers now have a silver bullet. Most economists who recognise the primacy of institutions as an explanatory variable are quick to note that little is yet known about how best to strategically influence institutional formation. They are also often the first to recognise that merely possessing good rules on paper is likely to be ineffectual, especially if those rules are incongruent with the informal norms that underpin a particular elite bargain. Besada and Martin (2015), for instance, observe an effort to formulate *de jure* policy that coheres with the Africa Mining Vision (African Union 2009). They find that many contracts are *de facto* secretly negotiated on terms that do not fit the relevant code:

> Corruption and patronage in the contracting and licensing of mining concessions impede efficient tax administration and undermine the popular legitimacy of foreign-owned mining operations. Yet even policy mechanisms like the [Extractive Industries Transparency Initiative] EITI, which explicitly target transparency, are unlikely to reduce rent-seeking behaviour without more fundamental institutional changes in African countries, including respect for the rule-of-law, independent judiciary and legal systems, and an informed and engaged citizenry (Besada and Martin 2015, 277).

Both institutional change and institutional persistence are equilibrium outcomes of the interaction between beliefs, culture, norms and historical path-dependence. Corruption and patronage will therefore not disappear because a new mining code has been developed. This is not an argument against robust laws, but a policy lesson that more research is required to understand country-specific institutional arrangements and the incentives they generate (Harvey 2019). Better research may increase the likelihood of formulating mining and hydrocarbon legislation (among the most critical institutions for African states) that is incentive-compatible with the distribution of political power and therefore cannot credibly build inclusive development. The external imposition of best-practise governance initiatives is likely to fail.

Too many governance initiatives assume that the rule of law exists and seek to harness it. Luong and Weinthal (2006, 246) put it this way:

> Political scientists and economists not only share the assumption that the revenue generated from mineral resource exports accumulates directly to the state, they also appear to have reached a consensus that weak institutions are the crucial link between resource wealth and the countless negative economic and political outcomes attributed to it. Thus, they focus on solutions that aim to make the state a better 'manager' of these proceeds. Yet, ironically, these solutions require the existence of strong fiscal and regulatory institutions or effective external monitoring rather than aiming to promote the development of strong institutions in mineral-rich states.

Understanding *why* the rule of law is weak is therefore indispensable for crafting policy solutions that gain traction. Hadfield and Weingast (2014, 22) make an important contribution in this respect: "Despite its centrality to many literatures, the concept of the rule of law is woefully under-theorised". They emphasise the rule of law as an equilibrium concept, arising from the interaction of institutions, beliefs and behaviours. Groups can resist and sabotage efforts to establish legal constraints on behaviour. However, the idea that political support for the rule of law will automatically evolve does not necessarily hold:

> Taken as a whole, the institutional literatures continue to work with a highly abstract notion of law. At the extreme, they simply assume that a government that establishes a set of institutions characteristic of existing stable legal regimes – legal codes, well-trained judiciaries, enforcement agencies – will thereby institute the rule of law. But these accounts fail to explain why these institutions in many developing countries are hopelessly corrupt and ineffectual (Hadfield and Weingast 2014, 30).

The authors produce a model for understanding a country's evolution towards the equilibrium rule of law, conceptualising its attainment as a collective action problem. They conclude that attempts to attain the rule of law often fail because they have not sufficiently considered pre-existing normative social and legal orders. Attaining the rule of law is thus less about introducing laws than harnessing and modifying the existing set of norms to ensure that defection is credibly punished and adherence sufficiently incentivised, thus attaining a new equilibrium.

1.9 Theoretical Framework

In respect of the above discussion, North, Wallis and Weingast (2009) (hereafter NWW) provide an appropriate theoretical lens through which to examine how oil rents affect political equilibria, which in turn affect development outcomes. An application of this lens to a number of cases followed (North et al. 2012). A modification and enhancement was subsequently developed by Levy (2014), which integrated insights from the political settlements literature with NIE. The political settlements literature departs from NIE in elevating the role of political power and elite contestation beyond the conception offered by NIE (Gray 2016; Kelsall 2018). Further modifications to Levy's framework by Kelsall (2016) will serve as the theoretical springboard for making sense of Angola and Nigeria's political economy trajectories in this book.