The Ambivalence of Power in the Twenty-First-Century Economy

Cases from Russia and beyond

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3

The pitfalls of rent-seeking: Alternative mechanisms of resource rent collection in Russia and Venezuela

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Introduction

In some developing countries, the extraction of natural resources is traditionally a key source of government revenue. In academic literature, such countries are usually referred to as 'rentier states', by which scholars mean 'those countries that receive on a regular basis substantial amounts of external rent' (Mahdavy 1970, 428). In other words, a rentier state is one in which 'the government is the principal recipient of the external rent in the economy' (Beblawi and Luciani 1987, 52). The rentier state concept has become a key element of the so-called resource curse theory (Auty 1993; Menaldo 2016, 43–76). This theory implies that the presence of significant revenues from the export of natural resources (primarily from oil and gas) tends to have various detrimental effects on the political and economic development of resource-rich nations. Analytically, the resource curse is not a unified theory but rather a set of different hypotheses related to the negative consequences of the presence of natural resources. For instance, a number of studies indicate that in resource-rich nations around the world the revenues received from hydrocarbon fuel exports tend to be the fundamental cause of problems such as the deceleration of economic growth (Sachs and Warner 2001; Ross 2012), the weakness of state institutions (Karl 1997; Smith 2007), authoritarian regime stability (Morrison 2015), higher levels of corruption (Bhattacharyya and Hodler 2010), persisting gender inequality (Ross 2008) and unending violent conflicts (Collier and Hoeffler 2004).

The resource curse literature is full of paradoxes and contradictions. For instance, the resource curse literature (including the rentier state conception) says almost nothing about how governments get their hands on oil export revenues. The problem with all existing studies of rentier states (and the resource curse literature as a whole) is that scholars tend to consider the state a priori to be the key beneficiary of oil production. The resource curse theory tends to consider that windfall oil revenues automatically flow into the state's coffers and ignores the fact that in the real world governments need to take fiscal action to collect revenues from oil production (Nakhle 2008). In other words, the process of transforming resource rent into government income is a puzzle for comparative political economy.

However, oil rent does not exist in a vacuum. From a theoretical perspective, the process of resource rent allocation (or resource rent circulation in the economy) includes three stages: resource rent generation, resource rent collection and resource rent redistribution (Vatansever 2021, 5). In all countries, resource rent is generated by companies, collected by the state and redistributed by the government among social groups. In the academic literature, scholars focus on how political leaders spend their windfall revenues from oil production (and use them to strengthen their rule) and ignore how political leaders obtain these revenues. In other words, political science scholars are traditionally interested in the resource redistribution stage and ignore the resource rent collection stage.

In all countries governments are required to take action and use various fiscal instruments to capture resource revenues from the extraction of natural resources. In oil-producing economies, the government usually obtains petrodollars through taxes or dividends paid by oil companies (Nakhle 2008). The resource rent of an oil-producing country is not inevitably transformed into government income because the transformation of resource rent into the resource revenue of the state is a complicated and controversial process.

The contradictory nature of resource rent allocation is especially clear if we look at how differently the process of resource rent collection is organized in petrostates as similar as Russia and Venezuela, the two paradigmatic oil-producing countries of the twenty-first century.

The development of Russia and that of Venezuela have demonstrated several common features for the last few decades. In both countries, the economic crisis of the 1990s undermined the stability of democratic institutions and caused the formation of personalist authoritarian regimes at the beginning of the twenty-first century. In both countries, the oil boom of the 2000s stimulated economic growth and the consolidation of authoritarian rule. Given the high oil prices, the governments of both countries decided to carry out partial nationalizations of the assets of private oil companies for the benefit of state-owned oil companies in the early 2000s. At first glance, the impression could arise that Russia and Venezuela were political and economic twins during the first decade of the twenty-first century. The similarity between the two countries was especially strong before Hugo Chavez's death in 2013 and the beginning of the catastrophic economic and political crisis in Venezuela. After 2013 the similarities between Russia and Venezuela gradually waned.

Table 3.1 The resource revenue of the Russian government and total resource rent

Year	Government's resource revenue (% GDP)	Total resource rent (% GDP)	State's capture of resource rent
2000	5.12	21.69	**0.24**
2001	5.31	19.92	**0.27**
2002	5.3	17.45	**0.3**
2003	5.88	17.61	**0.33**
2004	7.27	17.11	**0.42**
2005	11.83	18.25	**0.65**
2006	11.99	19.41	**0.62**
2007	9.87	17	**0.58**
2008	11.77	19.27	**0.61**
2009	8.28	15.4	**0.54**
2010	8.94	15.97	**0.56**
2011	10.68	17.99	**0.59**
2012	10.31	15.92	**0.65**
2013	9.61	14	**0.69**
2014	10.3	13.27	**0.78**
2015	8	10.33	**0.77**
2016	6.1	8.84	**0.69**

Source: The statistical data about governmental resource revenue is taken from the Government Revenue Dataset provided by the International Center for Taxation and Development. The statistical data about total resource rent is taken from the World Bank website. The variable 'state's capture of resource rent' is calculated as a ratio between governmental resource revenue and total resource rent. This variable refers to a percentage of total resource rent, which the government transforms into revenue.

However, despite some common features, Vladimir Putin's Russia and Hugo Chavez's Venezuela demonstrate different patterns of resource rent allocation. State leaders of both countries implemented two different strategies of resource rent collection in the early 2000s. The key difference between these strategies lies in the percentage of total oil rent that each government captures and transforms into its income. While in Russia almost all petrodollars collected by the federal government flow into the state budget, with 60–70 per cent of the total resource rent transformed into budgetary revenue (Table 3.1), in Venezuela only 10–15 per cent of the oil rent collected by the central government ends up in the state budget (Table 3.2). This difference between Russia and Venezuela is puzzling because both countries have nationalized petroleum industries with powerful national oil companies (NOCs). As, in theory, the nationalized model of the petroleum industry enables the state to capture almost all revenues from oil production (Mahdavi 2020, 159–60), Russia and Venezuela should have similar patterns of resource rent collection. However, economic statistics show that the government of Venezuela transforms a less significant percentage of the total resource rent into government income than would be expected given that this Latin American country has a nationalized petroleum industry and a great amount of oil rents.

Table 3.2 The resource revenue of the Venezuelan government and total resource rent

Year	Government's resource revenue (% GDP)	Total resource rent (% GDP)	State's capture of resource rent
1980	14.92	34.89	**0.43**
1981	20.97	25.48	**0.82**
1982	14.23	14.25	**1**
1983	11.74	17.78	**0.66**
1984	14.8	19.41	**0.76**
1985	13.72	16.89	**0.81**
1986	8.56	8.54	**1**
1987	9.76	16.79	**0.58**
1988	10.47	10.55	**0.99**
1989	14.94	21.6	**0.69**
1990	13.81	29.77	**0.46**

Year	Government's resource revenue (% GDP)	Total resource rent (% GDP)	State's capture of resource rent
1991	13.67	17.7	**0.77**
1992	8.23	16.69	**0.49**
1993	6.7	16.89	**0.4**
1994	5.25	16.29	**0.32**
1995	4.24	14.58	**0.29**
1996	5.8	23.93	**0.24**
1997	7.54	18.02	**0.42**
1998	1.32	8.88	**0.15**
1999	2.21	12.67	**0.17**
2000	4.23	20.02	**0.21**
2001	2.54	13.96	**0.18**
2002	0.92	18.23	**0.05**
2003	1.47	21.12	**0.07**
2004	1.79	26.49	**0.07**
2005	3.68	31.58	**0.12**
2006	4	30.39	**0.13**
2007	4.04	22.04	**0.18**
2008	2.63	22.01	**0.12**
2009	1.83	10.68	**0.17**
2010	0.86	12.71	**0.07**
2011	1.22	24.19	**0.05**
2012	1.4	18.72	**0.07**
2013	1.13	17.97	**0.06**
2014	2.23	11.82	**0.19**

Source: The statistical data about governmental resource revenue is taken from the Government Revenue Dataset provided by the International Center for Taxation and Development. The statistical data about total resource rent is taken from the World Bank website. The variable 'state's capture of resource rent' is calculated as a ratio between governmental resource revenue and total resource rent. This variable refers to a percentage of total resource rent, which the government transforms into revenue.

Resource rent is a source of political and economic power in oil-producing countries. Those leaders who control the circulation of oil rents across social groups control the distribution of power in these countries. The ability of the state to collect and redistribute resource revenues is crucial for the power of political leaders in oil-exporting nations. Without this ability leaders cannot exercise their power properly. Therefore, the analysis of resource rent collection in Russia and Venezuela should shed light on the machinery of power in resource-rich societies.

In this chapter, I explain the different patterns of oil rent collection in Venezuela and Russia. I wonder why these oil-producing countries are not alike. Why do governments of some nations successfully collect oil revenue, while governments of other countries fail to do so? What political and economic factors determine the success of resource rent collection in Russia and the failure of resource revenue collection in Venezuela?

This chapter has the following structure. Firstly, in the literature review, I theoretically summarize what factors can affect the process of resource rent allocation in oil-producing economies. Secondly, in the analysis of the Russian case, I show how this country in the 2000s became an excellent example of a petrostate, the NOCs of which allow the state to capture the best part of the oil export revenue. Thirdly, in the analysis of the Venezuelan case, I explain why the government of this Latin American country collects such an insignificant amount of oil revenue for the state budget. Fourthly, in conclusion, I bring a theoretical perspective to my comparative study of Russia and Venezuela. In this part of the chapter, I wonder how the ambivalence of power manifests itself in the process of resource rent collection in the cases of Venezuela and Russia.

Literature review

The classical theory of rational choice claims that all state leaders seek to maximize their power (Wintrobe 1998; Mueller 2003) and the key goal of every political leader (authoritarian as well as democratically elected) is to stay in office as long as possible (Bueno de Mesquita et al. 2003). There is no reason to believe that the state leaders of oil-producing countries are the exception to the rule.

For the political leaders of petrostates, oil export revenue is the most obvious instrument they can use to maximize power. Thus, political leaders have powerful incentives to maximize their revenues from oil production because in petrostates oil revenue maximization inevitably leads to power maximization. Control over oil revenue flows allows state leaders to strengthen their political positions. For instance, in authoritarian countries, political leaders can invest petrodollars in strengthening the repressive apparatus and buying the loyalty of the masses (Ross 2001, 333–6), while in democratic countries state leaders can seek to increase their popularity by using oil revenues to expand social programmes (Karl 1997, 116–37; Dunning 2008). In other words, the accumulation of oil export revenues in the hands of state leaders gives them the financial resources to strengthen their rule in the long term, so they have a strong interest in maximizing oil export revenue.

The maximization of oil revenues can be achieved by nationalizing the petroleum industry to the benefit of state leaders. Some scholars point out that the nationalization of petroleum industries, which occurs from time to time in oil-exporting countries, is determined by the wish of political leaders to maximize their windfall revenues from oil production (Guriev et al. 2011; Warshaw 2012; Mahdavi 2014). There is some evidence in the academic literature that the ownership structure of the petroleum industry seriously affects the ability of the state to raise revenue from oil exports and to collect resource rent (Jones Luong and Weinthal 2010; Mahdavi 2020). The nationalized petroleum sector potentially gives the government more instruments to obtain revenues from oil production than the privatized model of petroleum ownership. For instance, the nationalized petroleum industry allows the government to effectively control the sector and strengthen the financial power of the state.

Historically, the wave of mass nationalizations of petroleum industries spread across the developing countries in the 1970s after the dramatic increase in the price of oil (Korbin 1985; Yergin 1991). In the early 1970s, the governments of many oil-producing nations decided to expropriate the assets of international oil companies and establish giant NOCs for the efficient control of the nationalized petroleum industries. The key driver of these actions was the wish of many state leaders to gain all the benefits from the increase in oil prices, which took place in the 1970s. In other words, their behaviour was stimulated by the logic of oil revenue maximization.

In his book *Power Grab: Political survival through extractive resource nationalization*, Paasha Mahdavi argues that in oil-exporting countries, the nationalization of the petroleum industry is driven by the wish of authoritarian leaders to maximize the likelihood of their future political survival (Mahdavi 2020). He demonstrates the results of a statistical study according to which the nationalization of the resource extractive industry of a country tends to increase the probability of the future political survival of the leader of the country in question (Mahdavi 2020, 161–7). So, in countries with nationalized petroleum industries, political leaders stay in power longer than political leaders of oil-producing countries in which the oil industry has not been expropriated. In other words, the nationalization of oil sectors stabilizes authoritarian regimes in the long term because regime leaders gain access to greater financial resources, which they can use for the purpose of repression and public spending. Mahdavi also points out that the nationalization of oil industries usually leads to a significant increase in the size of the government's oil revenue (Mahdavi 2020, 159, 173).

However, nationalizing petroleum industries is not always as beneficial as it seems at first glance. Christian Wolf demonstrates that NOCs 'significantly underperform the private sector in terms of output efficiency and profitability' (Wolf 2009, 2642). He also points out that NOCs tend to be less efficient than private companies in terms of oil production (Wolf 2009, 2649–50). The low efficiency of the nationalized petroleum industry could undermine the ability of the government to raise significant revenue from oil production in the long term because the state will have to provide subsidies to the sector to compensate for its inefficiency.

Since the 1970s the leaders of many oil-producing countries have nationalized their petroleum industries. These actions boosted the budgets of many petrostates and the financial resources of their leaders (Yergin 1991). Some scholars point out that in oil-producing countries authoritarian regimes exist longer on average than authoritarian regimes in oil-poor countries (Wright et al. 2015). In part, the longevity of political regimes in many oil-producing countries can be explained by the fact that nationalized petroleum industries in these countries successfully generate significant amounts of petrodollars for state leaders.

In *Nontaxation and Representation: The fiscal foundations of political stability*, Kevin Morrison points out two possible mechanisms whereby state leaders can use oil export revenues to stabilize the regime and maximize their power (Morrison 2015). On the one hand, political leaders can boost social spending to buy the loyalty of the population. On the other hand, oil export revenue can be used by leaders to reduce the tax burden on the masses. These measures allow state leaders to block potential popular demands for democratization and accountability following the logic of 'no taxation without representation' (Ross 2004, 230–2). In other words, the ability of state leaders to transform oil export revenue into social benefits for the population is quite important for regimes' survival.

In the comparative political economy of welfare capitalism, it is the state that is traditionally considered to be the key operator of social programmes and the driver of the politics of redistribution in advanced economies (Esping-Andersen 1990). However, in some developing countries, the role the state plays in the operation of social programmes can be less significant than in developed nations. While in advanced economies welfare policy is based on the principles of universalistic social protection, in some poor developing countries social programmes are often used by political leaders for clientelism and patronage (Stokes et al. 2013; Diaz-Cayeros et al. 2016). The key difference between universalistic and clientelistic social protections is that while universalistic social programmes are guaranteed and funded by the state, clientelistic social protection is guaranteed by political leaders rather than the state and can be operated by informal funds (Diaz-Cayeros et al. 2016, 26).

The weakness of the state is potentially one of the most dramatic consequences of the resource curse. The academic literature claims that oil export revenues can generate very damaging effects on the quality of state institutions in developing countries (Karl 1997; Smith 2007). These effects can be so detrimental to the state that political leaders could lose their control over state institutions. Some scholars even propose to rename the 'resource curse' as the 'institutions curse' (Corrales and Penfold 2015; Menaldo 2016) because the weakness of state institutions is a fundamental characteristic of many resource-rich nations. The weakness of the state (and its capacities) affects the ability of the government to provide social benefits and public goods to the population. In petrostates, the weakness of state institutions challenges the ability of political leadership to collect and redistribute windfall revenues. In countries with extremely weak state institutions, leaders have no choice but to establish alternative (non-state) mechanisms for the collection and redistribution of oil rents. The use of these mechanisms can lead to the formation of clientelistic networks and further erosion of the state and its infrastructural power (Mann 1984).

Summing up, the academic literature shows that control over oil revenues is a very important factor for the political survival of state leaders in petrostates (Morrison 2015; Mahdavi 2020). Political leaders strive for oil revenue maximization because it maximizes their power. However, in the academic literature, some scholars assume implicitly that the desire of state leaders to control oil revenues leads to the transformation of all petrodollars into the budgetary revenues of the state. However, it is not always the case. Political control over petrodollars can also be exercised informally using non-public funds rather than collecting all petrodollars in the state budget. State leaders can accumulate oil export revenues in informal funds and use them for their own political needs without any public scrutiny. In theory, the use of informal mechanisms of resource rent allocation makes some sense for the political leaders of countries whose state capacities are very weak. On the contrary, in countries with relatively strong state capacities, political leaders should have powerful incentives to use the state rather than informal practices to control the process of resource rent allocation.

Russia as a perfect petrostate

After the dissolution of the Soviet Union in 1991, the problem of the radical transformation of all sectors of the economy (including the oil and gas industries) became a big issue in Russian politics (Gaidar 2007). The post-communist economic transition and market reforms included the mass privatization of oil fields and state-owned petroleum assets. The old bureaucratic model of industrial management was replaced by a market-based corporate system in the oil and gas sectors (Gaddy and Ickes 2005). However, in the 1990s the privatizations of the oil and gas industries in Russia were dissimilar because the federal government implemented different strategies for the sale of these two sectors. While the oil industry was bought up almost exclusively by private companies, the assets of the gas industry were accumulated in the hands of the newly established state-run company Gazprom.

In the 1990s, the post-communist privatization of the petroleum industry resulted in the division of the state-owned oil assets among recently established private oil companies. Pauline Jones Luong and Erika Weinthal point out that Russia's privatization of the petroleum industries was atypical for post-Soviet countries (Jones Luong and Weinthal 2010). While in other post-Soviet republics foreign companies actively participated in the privatization of oil industries, in Russia it was domestic private companies that were the key winners of the privatization process in that they gained exclusive control over the petroleum industry. Some of the businessmen who privatized the oil sector in the 1990s subsequently became well-known as Russian 'oligarchs' (Hoffman 2002).

Unlike the oil industry, ownership of the gas sector did not pass to private companies. The ministry of the gas industry of the Soviet Union was transformed into Gazprom, the national gas company of Russia, which became the monopoly gas producer in Russia and one of the leading gas companies in the world (Gustafson 2012). However, despite the status of the national gas company, Gazprom initially had a mixed ownership structure in which the federal government did not have a majority shareholding. The state did not have full control over Gazprom until the mid-2000s, when the federal government returned the company to state control.

The privatization of the oil sector occurred under conditions of an economic crisis and the deep transformation of Russian society (Gaidar 2007). Economic reforms and the dissolution of the Soviet Union resulted in a deep crisis of state capacity in Russia and other transitional nations (Volkov 2002). In the 1990s and early 2000s, the Russian federal government proved itself to be very poor at capturing revenue from oil and gas production. The state did not have efficient fiscal instruments to force private oil companies to pay taxes to the state budget (Jones Luong and Weinthal 2010). While in the 1990s oil companies and oligarchs were very strong and powerful, the Russian state was very weak and chaotic and thus struggled to bring order to the regulation of the economy.

The privatization of the petroleum industry had positive as well as negative effects on the Russian economy. On the one hand, privatization radically improved the efficiency of the oil sector in the post-Soviet period, which was a fundamental cause of the economic boom of the 2000s (Aleksashenko 2018). Gustafson thinks that the transformation of the petroleum industry in the early 1990s produced the 'economic miracle' of the Russian oil sector one decade later (Gustafson 2012). This 'miracle' was characterized by the relatively high efficiency of the oil sector and the increase of oil production in Russia in the late 1990s and the early 2000s. In other words, private oil companies radically improved the productivity and efficiency of the oil sector compared with the Soviet era. However, in the 1990s the privatized model of the oil sector and the low level of state capacity undermined the ability of the federal government to transform resource rent into government income.

There were two problems for the Russian government in the 1990s in the context of resource rent collection. Firstly, the general level of state capacity was quite low, which meant that the government did not have efficient instruments of resource rent collection. Secondly, in the 1990s the international oil price was very low, so the state was afraid to impose heavy taxes on the petroleum industry as it would make oil production unprofitable. Moreover, under conditions of low oil prices, increasing the fiscal burden on oil companies could have a harmful effect on the ongoing modernization of the petroleum sector.

Everything changed after Vladimir Putin took power in 2000. His rise to power coincided with the increase in international oil prices and the improvement of Russian state capacity. The oil price recovery created good conditions for the state to increase the tax burden on the petroleum sector and oil companies. In the early 2000s, some political and administrative reforms were carried out by Putin's team, which allowed the government to strengthen its control over the bureaucratic apparatus at all levels. These reforms improved Russian state capacity but also eventually resulted in the consolidation of power in Russia and the rise of Putin's regime (Gel'man 2015).

In the 2000s the successful development of the privatized oil sector was a key driver of economic growth in Russia and the rise of Putin's popularity (Treisman 2014). However, Putin decided to carry out the nationalization (or renationalization to be precise) of the oil sector and kill the goose that had laid the golden eggs. Putin's politics of renationalization meant the return of some strategic economic assets to the state (Aleksashenko 2018; Aslund 2019, 97–131). The existence of prosperous private oil companies (owned by powerful oligarchs) conflicted with the interests of Putin's regime in the long term. The logic of political survival pushed Putin to concentrate all resources and economic assets in the hands of the state or the hands of the companies affiliated with the Kremlin.

The so-called Yukos affair was the first episode of the transformation of the Russian petroleum industry (as well as of the basic principles of Russian politics) in the early 2000s (Volkov 2008). Yukos was a leading oil company in Russia, which was expropriated by the state in 2003. As a result of the Yukos affair, the assets of the oil company were expropriated by the state-owned company Rosneft, while the Yukos CEO, Mikhail Khodorkovsky, was sent to prison for 10 years. From a theoretical perspective, the nationalization of the leading oil company could be explained by the desire of Putin to maximize his power through the maximization of state revenues from oil production (Mahdavi 2020).

The Yukos affair was the most important but not the only episode of the renationalization of the petroleum industry in Putin's Russia. In the 2000s Gazprom also started collecting the assets of private oil companies. For instance, in 2005 Gazprom bought the major shares of Sibneft, the private oil company owned by Roman Abramovich, for 13 billion dollars. As a result of this deal, Gazprom expanded its business specialization from gas production to include the production of oil (Gustafson 2012). Moreover, in the 2000s the federal government increased its participation in the shares of Gazprom, as a result of which the state gained control over the gas company. It was an important moment in the renationalization of the Russian oil and gas sectors because in the previous decade the federal government did not have full control over Gazprom, despite the company's formal status as the national gas company.

The renationalization of the petroleum industry in the early 2000s allowed the federal government to improve the process of resource rent collection. The state obtained efficient instruments for the capture of resource revenue. In the early 2000s, Putin's administration carried out some important changes in the administration of petroleum taxation (Vatansever 2021). The lion's share of all government resource revenue came from two taxes: export duty and severance tax (or NDPI in the Russian language). The introduction of these two taxes optimized petroleum taxation, as the result of which the process of resource rent collection and the administration of tax collection became more efficient in comparison with the 1990s (Jones Luong and Weinthal 2010).

The renationalization of the petroleum industry had a negative impact on the efficiency of oil production in Russia over the long term. There is some evidence that the quality of the management of the petroleum industry decreased dramatically after its renationalization in comparison with the late 1990s and early 2000s. In other words, the nationalization of the industry did not result in the flourishing of oil production in Russia. Moreover, eventually, in the 2010s the petroleum industry started suffering from deep inefficiency and corruption.

The radical improvement in petroleum tax collection allowed the state to accumulate a significant amount of oil revenue in the state budget, with the result that the federal government became rich enough to increase public spending in the 2000s. Between 2000 and 2008 the total amount of government spending (including social spending) increased several fold. However, despite the significant rise in government income during the oil boom of the 2000s, the budgetary and financial policies of the Kremlin were quite conservative and cautious. Putin's Minister of Finance, Alexei Kudrin, 'utilized' part of the windfall revenues, which were concentrated in newly established sovereign wealth funds (SWFs).

As was the case with other petrostates which had established similar funds, in Russia the SWFs were created with the aim of (1) controlling economic overheating, (2) containing inflation and (3) saving money for the future. The collection of revenue from oil production was conducted by the state so successfully that the Kremlin decided to save money for a rainy day in the event that the international oil price were to fall (Vatansever 2021). So, the basic economic function of SWFs was to remove petrodollars from circulation in the Russian economy during the oil boom of the 2000s. The creation of such funds allowed the Russian government to survive the financial crisis of 2008–9, which hit the

Russian economy hard due to the sharp drop in the oil price. Moreover, financial reserves from the SWFs helped Russia to maintain macroeconomic stability during the economic crisis of 2014–16.

Putin's economic policy can be characterized as neoliberal etatism, the basic principles of which are state control over all strategic economy sectors (including the petroleum industry), monetary conservatism and moderate social spending. Even in the years of high oil prices (such as 2007–8 and 2012–13), the Russian state did not carry out a massive redistribution of petrodollars through ambitious social programmes because the financial authorities feared an increase in inflation and other macroeconomic effects. However, even though the Russian financial authorities were converts to the neoliberal faith, the Russian neoliberal paradigm differs from classical archetypes (Harvey 2005; Appel 2011). The basic difference between Putin's neoliberalism and the neoliberal practices of advanced capitalist economies is that in Russia all revenue flows into the state's coffers, while in the other neoliberal economies, at least in theory, wealth concentrates in the hands of banks and corporations. The key goal of Putin's economic policy, or Putinomics (Miller 2018), is to maintain macroeconomic stability and to ensure the continued existence of Putin's regime.

Venezuela as a paradoxical petrostate

Venezuela is a country with a nationalized petroleum industry. The oil sector was nationalized in 1975 and, as a result, the expropriated oil assets were concentrated in the hands of the newly established state-owned oil company PDVSA (Petróleos de Venezuela). During the oil boom of the 1970s and 1980s, PDVSA was a 'cash cow' for the government of Venezuela (Karl 1997). Even after the decrease in oil prices in 1986 PDVSA was a relatively efficient NOC, but at that time the efficiency of the petroleum sector did not translate into additional resource revenue for the state because the international oil price was low. David R. Hults points out the paradoxical situation that 'while PDVSA continued growing during the 1980s, the Venezuelan economy faltered' (Hults 2012, 428). In the 1990s the oil price remained very low, so these years can be characterized as the 'lost decade' of the Venezuelan economy.

Everything changed in 1998 when Hugo Chavez, a populist outsider, won the presidential election. During the electoral campaign, Chavez exploited the rhetoric of resource nationalism, according to which all profits from oil production should be owned by the people rather than international investors and corrupt elites (Hellinger 2016; Rosales 2018). After the electoral victory of 1998, the Chavez administration faced a deep political crisis in Venezuela. The old elites openly demonstrated their disloyalty to the new president and his reform agenda. Chavez launched a series of political and economic reforms aimed at dismantling the whole system of government, which had existed in Venezuela since 1958. Chavez carried out the constitutional reform and won the referendum of 1999, which polarized and politicized the divided Venezuelan society. While what Chavez wanted was to create a new political system through the destruction of the old regime (Brewer-Carías 2010), what ensued in the late 1990s and the early 2000s was the disorganization of the administrative capacity of the Venezuelan state.

The constitutional reform and the political conflict with the old elites in 1999 set the trajectory of the political development of Venezuela in the decades that followed. The weakening of formal political institutions in a bid to strengthen the political power of the authoritarian leader resulted eventually in the collapse of statehood in Venezuela. In the 2010s under Chavez's successor Nicolas Maduro, Venezuela looks more like a failed state than a prosperous petrostate.

In the first years of his presidency, Chavez launched the serious reform of the petroleum industry and the state-owned oil company PDVSA. The 2001 Hydrocarbons Law imposed very strict restrictions on the participation of international capital in the process of oil production in Venezuela. The implementation of this law resulted in the escalation of political conflict between the Chavez administration and PDVSA. The struggle for the autonomy of the company led to a series of strikes in PDVSA in 2002 and 2003. These strikes had very detrimental effects on the petroleum industry of Venezuela and the catastrophic decrease of oil production in the short term. For instance, in November 2002 the level of oil production was 3.3 million barrels per day, while in January 2003 the level of oil production was only 700,000 barrels per day (Hults 2012, 433). However, Chavez quickly took control of the situation in that '[d]uring early 2003, the government shed more than 18,000 of the company's 33,000 employees' (Hults 2012, 434). This decision by the Chavez administration was a catastrophe for the efficiency of the Venezuelan oil sector because many qualified workers lost their jobs.

All these actions by the Chavez administrations led to a decline in PDVSA's efficiency and the state's ability to collect revenues from oil production. However, the efficiency of the petroleum sector itself deteriorated as a result of the non-market regulation of petroleum prices in the years of Chavez's presidency. For instance, PDVSA was obligated to sell gasoline (petrol) at very low prices. Still today Venezuela has the cheapest gasoline prices in the world for domestic consumers. Low gasoline prices were an important instrument used by the Chavez regime to 'buy' the loyalty of the population. However, the production of cheap gasoline was money-losing for PDVSA and cost 15–20 billion dollars annually (Rodriguez et al. 2012). The production of cheap gasoline goes against the logic of the market economy, so the government of Venezuela had to subsidize PDVSA through various tax cuts. Hence, the production of cheap gasoline was very beneficial politically for Chavez but very expensive economically. In the long term, the production of cheap gasoline undermines the efficiency of the Venezuelan petroleum industry.

PDVSA was also required to assume other functions that are not typical for state-owned oil companies. Chavez's decision to take control of PDVSA and its management in 2002–3 resulted in the transformation of the role the company played in the economy and Chavez's state. The national oil company was obliged to provide some public goods to the population, while real formal institutions were partially destroyed and unable to function well. Under Chavez, PDVSA became a parallel state ('*estado paralelo*'), which assumed many of the functions of the central government. In addition to formal tax pressure on the company, the government of Venezuela imposed heavy non-budgetary obligations on PDVSA. David R. Hults points out that 'PDVSA has actually taken over more administrative functions than its pre-Chavez incarnation' (Hults 2012, 443). The expansion of PDVSA's role in regulating the economy allowed the Chavez administration to make up for its inability to run the bureaucratic apparatus due to the attempts of the old elites to block and sabotage all of Chavez's actions. While Venezuela's political system was fragmented and the state capacity of the country was low in the early 2000s, it was less risky for Chavez to spend petrodollars through the funds of PDVSA than to spend resource revenues through formal mechanisms and public institutions (such as the state budget).

Chavez implemented a very unusual model of resource rent allocation, which is atypical for petrostates with nationalized petroleum industries. In this model, a significant amount of the resource revenue is redistributed through non-budgetary mechanisms rather than through public spending of the state budget. The non-budgetary mechanisms of redistributing the oil revenue took the form of the Bolivarian missions targeted at solving social problems. These missions were a key instrument of social policy in the years of Chavez's presidency. All missions were funded primarily by PDVSA through informal funds, while the government did not participate actively in financially supporting these programmes.

The non-budgetary obligations of PDVSA, most of which were affiliated with missions, increased 30-fold between 2003 and 2008 (Hults 2012, 449). Kirk A. Hawkins points out that missions are funded primarily by direct transfers from PDVSA and estimates that 'only 8% to 24% of the funds came from the regular national budget, depending on the year' (Hawkins 2010, 199). In addition to the Bolivarian missions, PDVSA was obligated to fund the FONDEN (the National Development Fund), which was created in 2005 to implement infrastructure projects (schools, roads, hospitals, etc.). The principles of the work of FONDEN were equivalent to the Bolivarian missions. In total PDVSA sent 27 billion dollars to the fund between 2005 and 2008 (Hults 2012, 449).

The nature of the Bolivarian missions is very similar to the clientelistic practices of other Latin American countries, in which political leaders redistribute state revenue to targeted social groups through private goods rather than generating universalistic public goods to everyone (Stokes et al. 2013; Diaz-Cayeros et al. 2016). However, in Chavez's Venezuela, the budgets of the missions were so generous and ambitious that Hawkins is not sure that these social programmes can be classified as a classical example of clientelistic practices (Hawkins 2010). Matthew Rhodes-Purdy characterizes the clientelistic practices of the Chavez regime as 'participatory populism' (Rhodes-Purdy 2017) because ordinary citizens were allowed to participate in the operation of social programmes. Under Chavez the organizations of workers' councils, the so-called Bolivarian circles or *círculos bolivarianos*, were actively involved in the operation of Bolivarian missions. In other words, the political regime delegated the distribution of petrodollars (at least, a certain part of oil rents) to its core supporters at the local level. The Bolivarian circles formally were the institutes of civil society rather than the state, so this institutional architecture of the Venezuelan 'welfare state' could explain why the central government did not concentrate all its windfall oil revenues in the state budget.

Following the logic of the parallel state, PDVSA assumed some basic government functions, such as the provision of public goods (or private goods to be precise). The general level of public administration in Venezuela under Chavez was quite low, so it may have been more efficient to spend resource revenue through PDVSA and non-budgetary funds rather than spending petrodollars through formal institutions (such as the state budget). Chavez faced political resistance from the old elite and the bureaucracy in the first years of his presidency, so he had good reason to believe that the state apparatus was not loyal to him. The Venezuelan political elite was very fragmented, so Chavez did not have total control over the bureaucracy at all levels. Thus, he had to invent new, alternative mechanisms for the collection and redistribution of oil revenues as a way of risk-hedging for his regime under conditions of a fragmented political system and weak state capacity. For political reasons, the executive branch did not want to face the scrutiny of public spending by the parliamentary opposition (as well as opposition in regional governments), which was very active and powerful in the early 2000s.

In the years of Chavez's presidency, Venezuela faced classical manifestations of the resource curse such as economic troubles and the erosion of the state (including the radical weakening of state capacity and state institutions). Terry Karl points out that Venezuelan statehood has never been particularly strong (Karl 1997). Even in the 1970s and 1980s, during the 'golden age' of the Venezuelan economy, the political institutions of this Latin American country (and its state institutions) were far from being strong and effective. However, under Chavez, the quality of Venezuela's state capacity deteriorated so much that the state could not be an effective operator of social programmes anymore. In other words, the Venezuelan state could not guarantee Chavez full control over the collection and distribution of oil rents. The weakness of state capacity pushed Chavez to delegate the functions of the operator of social programmes to non-state actors such as the Bolivarian circles and PDVSA.

Conclusion

The abundance of natural resources carries both opportunities and risks for political leaders of oil-producing countries. On the one hand, resource rents are sources of political power since in resource-rich nations those who control the distribution of petrodollars control the distribution of power. On the other hand, power based on the extraction of natural resources eventually tends to destroy itself because the flow of oil rents tends to gradually erode state institutions, which leaders need to exercise their power. This erosion of the state (and its capacity) is one of the well-known manifestations of the resource curse in the academic literature (Karl 1997; Smith 2007).

The state is a core element of any political system, which legitimizes the existing political and economic order. However, the role of the state is especially strong in oil-producing countries because a rentier state takes the functions of the collection and redistribution of oil rents across social groups. In oil-producing countries, the state is usually a key instrument of resource rent allocation, without which political leaders cannot control the redistribution of petrodollars and exercise their power. The academic literature claims that in oil-exporting economies, the state often falls victim to the resource curse, which leads to weakening of its institutions. Under the conditions of weak state capacities, political leaders eventually lose the ability to use the state for successful collection and efficient redistribution of petrodollars for their political purposes. The fall of state capacity (caused by the resource curse) potentially undermines the foundations of political power in resource-rich countries as well as the ability of political leaders to use oil export revenues to hold on to power in the long term.

The ambivalence of power in oil-exporting economies manifests itself in the fact that oil rents are both a source of power and a major threat to its retention. The comparative analysis of Russia and Venezuela illustrates this power ambivalence of resource rent for Putin and Chavez. What unites both leaders is that they took almost all political advantages from the high oil prices of the 2000s and actively used windfall revenues for the maximization of their rule. At the same time, in the 2000s, both regimes faced serious economic and political risks, which could lead to the erosion of the state institutions of both countries and overheating of their economies. For Putin and Chavez, the boom of oil prices was not only 'the manna from heaven' but also a serious political risk, which they had to minimize to survive politically.

In both countries, political leaders had to implement various practices to minimize the potential political risks from the resource curse. However, Putin and Chavez dealt differently with side effects of the resource curse, including the risks of state capacity erosion. While Putin's regime managed to avoid the radical weakening of the state and even strengthened its capacity during the oil boom of the 2000s, Venezuela's state capacity in the 2000s deteriorated so much that Chavez had to establish alternative (non-state) mechanisms for the collection and redistribution of resource rent. The radical deterioration of Venezuela's state capacity pushed Chavez to transfer a few traditional state functions such as the operation of social programmes to PDVSA and the Bolivarian circles. The difference between Russia and Venezuela in resource rent collection (Tables 3.1 and 3.2) can be considered as the statistical illustration of the fact that during the oil boom of the 2000s the state capacities of these countries were not similar. Whereas Russia managed to minimize the political and economic threats of the resource curse (such as the weakening of the state), in Venezuela the political leadership failed to escape from the resource curse problems, including the collapse of state capacity.

The erosion of the Venezuelan state challenged Chavez's regime and pushed the political leadership to deprive the state of its traditional monopoly on the collection and redistribution of resource rent. The rise of the dysfunctionality of the state undermined the political power of Chavez because his administration faced the administrative inability of the Venezuelan state to redistribute petrodollars for the clientelistic needs of the regime. In the years of Maduro's presidency (after 2013), this problem was exacerbated by the general crisis of the regime's legitimacy, which led to the transformation of Venezuela into a failed state in the late 2010s (Corrales and Penfold 2015).

In contrast, in the 2000s Putin strengthened his power through the strengthening of the state and its ability to collect and redistribute oil export revenues. The neoliberal financial policy, for instance, was an important factor of Putin's success in the minimization of the risks of the resource curse in the 2000s. The increase of Russia's state capacity allowed Putin to maximize his personal power and stabilize his regime. However, the success of Putin's economic policy was not everlasting. In the 2010s the problems of Russian economic development – caused by geopolitical contestations as well as the resource curse – started to undermine Putin's power through the gradual erosion of state institutions and the stagnation of the economy. Triggering the growth of the Russian economy (and being the cause of Putin's power) in the 2000s, the abundance of natural recourses eventually turned out to be the fundamental obstacle to Russian economic development and a threat to Putin's power in the late 2010s and early 2020s. Therefore, every petrostate is a 'colossus with feet of clay', whose reliance on the extraction of natural resources strengthens the power of the state (and its leader) in the medium term but tends to undermine it in the long run.

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