

Francesco Caselli and Andrea Tesei

Resource windfalls, political regimes and political stability

**Article (Published version)
(Refereed)**

Original citation: Caselli, Francesco and Tesei, Andrea (2016) *Resource windfalls, political regimes and political stability*. [Review of Economics and Statistics](#), 98 (3). pp. 573-590. ISSN 0034-6535
DOI: [10.1162/REST_a_00538](https://doi.org/10.1162/REST_a_00538)

© 2016 [by the President and Fellows of Harvard College and the Massachusetts Institute of Technology](#)

This version available at: <http://eprints.lse.ac.uk/64587/>

Available in LSE Research Online: November 2016

LSE has developed LSE Research Online so that users may access research output of the School. Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Users may download and/or print one copy of any article(s) in LSE Research Online to facilitate their private study or for non-commercial research. You may not engage in further distribution of the material or use it for any profit-making activities or any commercial gain. You may freely distribute the URL (<http://eprints.lse.ac.uk>) of the LSE Research Online website.

RESOURCE WINDFALLS, POLITICAL REGIMES, AND POLITICAL STABILITY

Francesco Caselli and Andrea Tesei*

Abstract—We study theoretically and empirically whether natural resource windfalls affect political regimes. We show that windfalls have no effect on democracies, while they have heterogeneous political consequences in autocracies. In deeply entrenched autocracies, the effect of windfalls is virtually nil, while in moderately entrenched autocracies, windfalls significantly exacerbate the autocratic nature of the political system. To frame the empirical work, we present a simple model in which political incumbents choose the degree of political contestability and potential challengers decide whether to try to unseat the incumbents. The model uncovers a mechanism for the asymmetric impact of resource windfalls on democracies and autocracies, as well as the differential impact within autocracies.

I. Introduction

LOOKING at the historical experiences of specific countries, it seems uncontroversial that an abundance of natural resources can shape political outcomes. Few observers of Venezuela, Nigeria, Saudi Arabia, and many other resource-rich countries would take seriously the proposition that political developments in these countries can be understood without reference—indeed without attributing a central role—to these countries' natural wealth. Yet the mechanisms through which natural resource abundance affects politics frustrate attempts to identify simple generalizations, with resource-rich countries displaying great variations in measures of autocracy and democracy, and political stability. For example, Saudi Arabia and Nigeria feature a strong tendency toward autocracy, but the former is extraordinarily stable while the latter has experienced nine successful coups since independence (and many unsuccessful ones). Venezuela seems to go back and forth between democracy and autocracy, with swings that closely follow the price of oil, while Norway appears to be safely and stably democratic regardless of the oil price.

In this paper, we use a large panel of countries and within-country variation to document the following regularities. Natural resource windfalls have no effect on the political system when they occur in democracies. However, windfalls have significant political consequences in autocracies. In particular, when an autocratic country receives a positive shock to its flow of resource rents, it responds by becoming even more autocratic. Importantly, there is heterogeneity in the response of autocracies. In deeply entrenched autocracies, the effect of windfalls on politics is virtually nil. It is only in moderately entrenched autocracies that windfalls exacerbate

the autocratic nature of the political system. Hence, our evidence generalizes a casual observation: windfalls have little or no impact in democracies (Norway) or very stable autocracies (Saudi Arabia) but change the political equilibrium in more unstable autocracies (Nigeria, Venezuela).

To reach these conclusions we measure natural resource windfalls as changes in the price of a country's principal export commodity. We argue that such changes are plausibly exogenous to changes in a country's political system. First, the identity of a country's main export commodity (e.g., oil versus gold) should be mostly driven by geography and geology. Second, the vast majority of countries individually account for a relatively small share of world output in their principal export commodity, so it is unlikely that political changes there will have an important effect on prices.¹ Also, since we include country fixed effects, our results cannot be driven by underlying country-specific trends common to changes in principal-commodity prices and changes in political regimes.

Our main measure of political institutions is the variable Polity2 from the Polity IV database. Crucially for our analysis, this is a continuous measure that varies from extreme autocracy (Polity2 = -10) to perfect democracy (Polity2 = +10), so it allows us to condition the analysis on inframarginal differences in the degree of autocracy or democracy, as well as to capture the effects of windfalls on inframarginal changes in autocracy or democracy. As this variable captures the extent to which the political system is open to competition, we sometimes refer to our measure of autocracy or democracy as a measure of political contestability.

To get a better sense of the sort of episodes driving our empirical analysis, consider the recent case of oil-rich Kazakhstan. President Nursultan Nazarbayev has been in office since the country became independent. He has gradually expanded his presidential powers by decree: only he can initiate constitutional amendments, appoint and dismiss the government, dissolve parliament, call referendums, and appoint administrative heads of regions and cities. This expansion in his powers has coincided with a strong rise in the international price of oil. In 2002 the president promulgated a law that set stringent requirements for the maintenance of legal status of a political party. As a consequence, the number of legal parties dropped from nineteen in 2002 to eight in 2003. In the same year, the president imprisoned two leaders of the main opposition party on charges of corruption. As a result of these changes, Kazakhstan's Polity2 score dropped from -4 to -6 in 2002. In the three

Received for publication September 18, 2013. Revision accepted for publication February 4, 2015. Editor: Philippe Aghion.

* Caselli: LSE, CFM, CEP, CEPR, and NBER; Tesei: Queen Mary, CEP, and CESifo.

We are very grateful to Antonio Ciccone for many discussions and to Tim Besley, Silvana Tenreyro, seminar participants at LSE and UPF, and two anonymous referees for comments. F.C. gratefully acknowledges the support of CEP, and Banco de España, the latter through the Banco de España Professorship, and the hospitality of CREI, where the project was initiated.

A supplemental appendix is available online at http://www.mitpressjournals.org/doi/suppl/10.1162/REST_a_00538.

¹ In the empirical analysis, we address the issue of large producers with the potential to influence world prices and find that our results are not affected by these economies.

preceding years, the average annual increase in the price of oil had been 27%, leading to a doubling of the price over the period. Another oil-related case that will be fresh in the memory of many readers is Iran in 2009. With the price of oil increasing on average by 22% per year during the previous three years, the presidential elections of that year were considered fraudulent by the opposition, who rejected the results and called for mass demonstrations. These demonstrations were violently repressed by the regime. As a result, Iran's Polity2 score fell from -6 to -7 .

Such examples are certainly not limited to oil. In El Salvador the presidential elections of February 1977 took place with the price of coffee increasing by an average 41% per year in the previous three years. There was a clumsy and poorly disguised electoral fraud in favor of the ruling conservative party candidate, General Carlos Humberto Romero. The opposition candidate, Colonel Ernesto Claramount, and a crowd of thousands gathered in the Plaza Libertad in San Salvador to protest Romero's election. The rally was attacked by government forces, leaving as many as fifty protesters dead. In November, the grip of repression was strengthened with the approval of the Law for the Defense and Guarantee of Public Order, eliminating almost all legal restrictions on violence against civilians. As a result El Salvador's Polity2 score fell from -1 to -6 .²

In order to motivate our empirical analysis and facilitate the interpretation of the results, we open the paper with a simple model of endogenous determination of political contestability. In our model a governing elite has complete control of the flow of income from natural resources and decides whether and how much of it to invest in what we call self-preservation activities. These range from the mild (e.g., direct or indirect vote buying) to the extreme (violent repression of the opposition). At the same time, a political entrepreneur outside the ruling elite decides whether to challenge those in power and try to replace them. This simple game generates endogenously two possible political modes: free and fair political competition (recognizable as democracy), where the elite essentially allows challenges to occur on a relatively level playing field, and the political entrepreneur chooses to compete for power; and a "repression" mode where the elite invests some of the resources deriving from natural resources in self-preservation activities, without, however, succeeding in completely deterring challenges.

²A very similar case is represented by Guatemala, whose principal commodity is also coffee. As in El Salvador, the role of the military in Guatemala had been prominent since the early 1960s, with the support of the coffee elite. The responses to social protests during the 1970s were similar to those in El Salvador. The presidential elections of 1978 took place with prices of coffee increasing on average by 60% per year in the previous three years. The elections were fraudulent, and the ensuing revolutionary movement was repressed by the harsh counterrevolutionary activity of the government, backed by the military and the coffee oligarchy. This started a period of violence and institutional chaos that ended only in 1985 with the return to democracy. Guatemala's Polity2 score fell from -3 to -5 in 1978.

The key determinant of the regime that is selected as an equilibrium is the amount of revenue accruing to the government from natural resources. This enters the ruling elite's decision problem in two ways: it is part of the payoff from staying in office, as political survival implies that the current elite remains in control of future revenues, and it also enters the budget constraint, as it is the principal source of funding for self-preservation activities, such as vote buying or political repression. At low levels of resource income, the incentive to engage in self-preservation spending is relatively low, as the future "pie" to hold on to is small. Democracy is the outcome. At higher levels, the future benefits from holding on to power are sufficiently large that the government shifts to autocracy. Crucially, the larger the pie, the more the incumbent finds it optimal to spend on self-preservation, so the degree of autocracy is increasing in the size of the resource rents.

One prediction of the model is that political contestability is nonlinearly related to resource abundance. *Ceteris paribus*, resource-poor countries will be democratic, while resource-rich ones will be autocratic, and the level of autocracy will be increasing in the amount of resource rents. However, for reasons we discuss later, this prediction is hard to test in an econometrically compelling way. We therefore note that another prediction of the model is that resource-poor countries (which the model predicts to be democracies) will not experience changes in political contestability following (small) resource shocks, while resource-abundant countries will. Furthermore, in the model, the rate of decline in political contestability following changes in resource rents is decreasing in the initial level of resource rents (and hence in the initial level of autocracy). This is due to an assumption of decreasing returns in self-preservation spending by the incumbent government. Hence, the model also predicts that in autocracies, the effect of windfalls is decreasing in the extent to which the autocracy is entrenched. This predicted heterogeneity in response between democracies and autocracies, as well as within autocracies, is the focus of our empirical work.

The threshold levels of resource income that cause the shift from one political regime to the other depend on parameters that may vary across countries. For example if the "ego rents" from office are lower, the range of values of natural wealth for which the ruling elite accepts free and fair challenges is (potentially much) wider than in places where political power per se offers greater rewards. A similar effect is produced if the "technology" for self-preservation is less effective, which could be the case in countries with a culture less deferential to those in power, where the citizens are willing to bear greater costs to challenge abuses or political leaders cannot rely on preexisting structures of power (e.g., ethnic allegiances) to leverage the resources conferred by incumbency. In this way, the model can potentially also explain cases such as Norway, where great natural resource wealth is associated with democracy.

The paper continues as follows. First, we briefly review the relevant literature. Section II presents the model, and section III presents data and results. Section IV concludes.

A. *Related Literature*

An important literature in political science studies the relationship between resource abundance and democratic/autocratic institutions using predominantly comparative case studies or cross-country variation (Ross, 2001a, 2001b, 2009; Ulfelder, 2007; Collier & Hoeffler, 2009; Alexeev & Conrad, 2009; Tsui, 2011).³ While there is some heterogeneity in the conclusions this literature tends to reach, the evidence in these studies points to a negative relationship between resource abundance and democracy/democratization, consistent with both our model and the circumstantial cross-sectional evidence we present. However, we argue that identification of causal effects can be achieved with greater confidence using within-country variation, and this is the basis for the core of our empirical evidence.

A recent literature, narrowly focused on windfalls from oil, uses within-country evidence. Haber and Menaldo (2011) and Wacziarg (2012) find no evidence that oil windfalls lead to greater autocracy. One concern with the Haber and Menaldo (2011) study is that its measure of oil revenue, partly based on oil production, is potentially endogenous to democratic change, while a possible concern with Wacziarg's analysis is that it uses the world oil price for all countries, meaning that there is no possibility to include time effects to control for global trends. Brückner, Ciccone, and Tesei (2012) find a positive coefficient on oil price shocks interacted with the share of net oil exports in GDP in a regression for movements toward democracy. They do not condition on whether the country is initially a democracy or an autocracy and do not examine heterogeneous responses within autocracies.⁴

More broadly the paper contributes to a significant empirical literature on the economic determinants of democracy/autocracy. Many authors have investigated the causal relationship between income and democracy (Barro, 1999; Epstein et al., 2006; Ulfelder & Lustik, 2007; Glaeser, Ponzetto, & Shleifer, 2007; Acemoglu et al., 2008; Brückner & Ciccone, 2010; Burke & Leigh, 2010). As discussed, we focus not on generic income changes but more specifically on windfalls associated with commodity price shocks. Because natural resource booms typically translate into direct windfalls into the hands of political elites, these shocks may have

very different political consequences from other sources of income shocks. In fact, the literature on the natural resource curse casts doubt on the premise that resource windfalls reach the general population (Sachs & Warner, 2001; Caselli & Michaels, 2013). Burke and Leigh (2010) do use commodity price changes as instruments for income changes, so their work is more closely related. They find insignificant effects of commodity-driven income changes on political regimes. Their focus, however, is on dichotomous variables measuring the onset of large changes toward autocracy or democracy. Instead, in keeping with the spirit of our model, we study changes in autocracy/democracy as a continuous variable. Furthermore, Burke and Leigh (2010) do not condition the effect of commodity price changes on whether the country was initially democratic or autocratic, much less on inframarginal differences in the initial level of political contestability. Finally, in Burke and Leigh (2010), the effect of windfalls is mediated by their effect on income changes, while we estimate the direct effect of the windfall. For the reasons mentioned above, there may be reasons to prefer a reduced-form specification.

Finally, several authors have looked at the effects of resource windfalls on political economy outcomes other than democracy/autocracy. For example, Leite and Weidmann (1999), Tavares (2003), Sala-i Martin and Subramanian (2003), Dalgaard and Olsson (2008), and Caselli and Michaels (2013) present corresponding empirical evidence on resource abundance and corruption. Besley and Persson (2011), Lei and Michaels (2014), Cotet and Tsui (2013), and Dube and Vargas (2013), among others, have looked at resource windfalls and civil war and political violence; Deaton and Miller (1995) and Andersen and Aslaksen (2013) at incumbents' survival; Egorov, Guriev, and Sonin (2009) at media repression by autocrats; and Caselli, Morelli, and Rohner (2013) at international war.

Theoretically, our model is illustrative of a class of contributions that have examined the effect of resource windfalls on rulers and elites' decisions on the amount of political contestability they choose to allow (Acemoglu, Verdier, & Robinson, 2004; Caselli, 2006; Dunning, 2008; Caselli & Cunningham, 2009; Tsui, 2010; Besley & Persson, 2011). Resource windfalls may increase repression by relaxing the ruler's budget constraint (particularly emphasized by Acemoglu et al., 2004)⁵ in response to increased challenges by outsiders (Tsui, 2010), or because they increase the value of staying in power for the incumbent (this paper).⁶ Many of these studies (particularly those by Caselli, 2006, and Tsui, 2010) derive nonmonotonicities analogous to the one in this paper, and for similar reasons. More generally, the model belongs to a class of work on conditional resource

³ Tsui (2011) is perhaps closest to us among these, as he also looks at the heterogeneous responses between democracies and autocracies. His results are consistent with ours. Aside from relying on cross-sectional evidence, however, his contribution focuses only on oil and does not explore heterogeneity in responses within autocracies.

⁴ A possible interpretation of the result in Brückner et al. (2012) is that since the oil share is highly correlated with autocracy, their oil-share/oil-price interaction operates as a rough proxy for our autocracy/oil-price interaction. The results are therefore consistent with ours, as in both cases they imply a lesser movement toward autocracy in more entrenched autocracies.

⁵ Haggard and Kaufman (1997) and Geddes (1999) also stress the role of the budget constraint of political incumbents.

⁶ In Dunning (2008), however, windfalls may reduce suppression of contestability as they reduce the amount of redistribution that would be implemented under democracy.

curses—where the effects of resource windfalls can be beneficial or adverse according to the size of the windfall or the values of certain conditioning variables (Tornell & Lane, 1998; Baland & François, 2000; Torvik, 2002; Cabrales & Hauk, 2011; Besley & Persson, 2011; Caselli & Coleman, 2013).

II. Natural Resources and Political Outcomes

A. Model

The setting is a discrete-time infinite-horizon economy that generates, in every period, a constant flow of consumption goods A from the exploitation of natural resources. Interpretations of A include the flow of royalties and other fees paid to the government by international extracting companies for the right to operate in the country; profits of state-owned corporations engaged in drilling and mining; rents generated by the international distribution of domestic cash crops by state-controlled marketing boards; or other rents linked to cash crops exports due to discrepancies between official and market exchange rates. We will refer to A as resource rents.⁷

The economy is populated by an infinite number of infinitely lived agents (which can also be interpreted as political dynasties or interest groups). In every period, one agent begins the period as the incumbent. One should think of the incumbent as the individual, or group of individuals, with de facto control of the government. In a democracy this would be the president and his or her collaborators (in presidential systems) or the leadership of the governing parties (in parliamentary systems). In autocracies this would be the autocrat, his or her family, and close associates.

The sequence of events and actions within each period is the following. First, the incumbent allocates the period rents A between self-preservation spending, B_t and consumption, C_t . Next, nature picks at random another agent (not the incumbent) to be the “potential challenger.” The potential challenger then decides whether to stage a challenge to the incumbent. If yes, the challenge succeeds with probability $p(B_t)$. If the challenge succeeds, the challenger begins the next period as the new incumbent. If the challenge fails, the incumbent begins the next period as incumbent. If the potential challenger does not challenge, the incumbent also continues as incumbent. Time is discounted by all agents at rate β .

In a democracy, the potential challenger could be interpreted as the person with the best chance to win an electoral context against the incumbent president or party. In an autocracy, it could be the agent best placed to successfully lead a coup or a popular uprising against the ruling clique. The

assumption that in every period there is only one potential challenger is not important for the results but simplifies the analysis. For simplicity of presentation and again without loss of generality, we also assume that potential challengers are drawn without replacement (i.e., each agent gets at most one chance to challenge) and that deposed incumbents never get a chance to challenge subsequent incumbents.

Period payoffs for the incumbent are $C_t + \Theta$. One interpretation of C_t is resources appropriated by the incumbent and his or her clique for personal enrichment—the infamous “Swiss bank accounts.” But in general, C_t could be interpreted as an aggregate of all the spending that provides satisfaction to the incumbent and hence, possibly, it could include public spending on, for example, schools or hospitals, if the incumbent is partially altruistic or derives satisfaction from doing “a good job.” An incumbent also receives a flow of ego rents, Θ . Assuming that there are additional benefits (both psychological and material) from holding political power is realistic and indeed standard in the literature (Rogoff, 1990; Osborne & Slivinski, 1996).

Period payoffs for the individual selected as the potential challenger are normalized to 0 if he or she challenges and to Π if he does not challenge. Π represents the present value of income from his or her activities outside politics. We also normalize to 0 the continuation payoff of a challenger if he or she chooses to challenge and the challenge fails, as well as the continuation payoff of an incumbent who is successfully challenged.⁸

The probability that a challenge will succeed is decreasing in self-preservation spending, or $p'(B_t) < 0$. Our interpretation of self-preservation spending is as a catch-all for all activities the government engages in in order to subvert the outcome of the political selection process in his or her favor. Anecdotally, it appears that the first steps toward autocracy are relatively mild: “beginner autocrats” engage in some patronage, some vote buying, some corruption of journalists and media outlets. More established ones add some physical or judicial intimidation, and perhaps electoral irregularities. Yet more aggressive autocrats further include disappearances and show trials. Finally, the most entrenched call off elections, prohibit political parties, and repress violently all sorts of opposition. If this description is correct, then the overall budget devoted to these activities seems likely to rise as further tools are deployed by the autocrat. At the same time, the likelihood of a successful challenge declines. This is why we assume that p is decreasing in B .

Hence, B captures inframarginal variation in the efforts exerted by those currently in power to subvert the rules of the game in their favor, with greater values of B being associated with greater autocracy. By the same token, we think of $B = 0$ as the situation where the incumbent accepts to be challenged on a “free and fair” basis. In sum, we interpret countries with $B = 0$ as democracy and countries with

⁷ We abstract from other sources of government revenues, as none of our comparative static results would be affected by their explicit inclusion. Nor are we able to make progress on the important question of whether or why resource windfalls have different political effects from other types of government revenues.

⁸ These normalizations could be relaxed as long as both the incumbent and the challenger prefer winning rather than losing in case of a challenge.

$B > 0$ as displaying varying levels of autocracy. Since B also affects a potential challenger's chances of taking over, we will also refer to B as a measure of political contestability. In order to obtain crisp results, we need to pick a functional form for $p(B)$. We use

$$p(B) = \Omega e^{-\delta B},$$

where $\Omega \in (0, 1)$ and $\delta > 0$ are exogenous parameters. Hence, self-preservation spending is subject to decreasing returns, with $p(0) = \Omega$ —implying that a challenger can never be absolutely certain of success—and $p(B) > 0$ for all B —implying that an autocrat can never be absolutely sure of successfully withstanding a challenge. These features are important but seem sensible.

The most restrictive assumption of the model is that the components of C_t do not affect p or Π . If the public is less tolerant of corrupt politicians, then we might expect the components of C_t that represent self-enrichment to enter p positively. If the public rewards competent politicians, we should expect the components of C_t that represent public spending to enter p negatively, in the tradition of Barro (1973). In addition, public spending in infrastructure, human capital, and other growth-promoting public goods could improve the outside option of potential challengers by improving opportunities in the private economy (or increasing the cost of recruiting supporters). Hence, these components of C_t could increase Π . We abstract from these issues in order to get simple results, but see Caselli and Cunningham (2009) and Tsui (2010) for a detailed discussion.⁹

B. Analysis

We formally analyze the model in the online appendix. Here we offer a heuristic discussion and explain the key results.

We focus on Markov perfect equilibria (MPE), of which we show there is only one. Given that the only state variable is the resource rent A and this is constant over time, it is immediate that players will follow stationary strategies: the incumbent will set the same value of B in every period, while the potential challenger will either always challenge or never challenge.

⁹A straightforward extension in the direction of allowing productive public spending would be as follows. Rents are allocated between repression, B , private consumption, C , and productive public spending, G , and the probability of successful challenge is decreasing in both B and G : $p(B) = \Omega e^{-\delta B - \gamma G}$. In this case, the incumbent never uses both tools at the same time. In particular, if $\delta > \gamma$, the incumbent uses only repression, while if $\delta < \gamma$, he or she uses only productive public spending. Hence, one interpretation of the model is that we focus on the case $\delta > \gamma$. Another interpretation is that the relative magnitudes of γ and δ vary across countries, perhaps for cultural, geographic, or geostrategic reasons. In countries where $\delta > \gamma$, the analysis in the rest of this section applies. Countries with $\gamma > \delta$ will obviously be democracies, as we defined democracy as a country with $B = 0$. Furthermore, in such countries, shocks to natural resource rents will have no impact on B . Hence, we recover the same empirical prediction as in the baseline model: we should observe no systematic response of political institutions to resource shocks in democracies.

We begin by establishing the conditions for equilibria where the challenger always challenges. In such an equilibrium, the value of being an incumbent at the beginning of any period is

$$V(A, B') = \frac{\Theta + A - B'}{1 - \beta [1 - p(B')]},$$

where B' is the equilibrium level of self-preservation spending. In every period, the incumbent receives ego rents Θ and consumes resource rents net of self-preservation spending $A - B$. This flow utility is appropriately discounted by taking into account time preferences β and the fact that in each period the probability of political death is $p(B')$.

One condition for an equilibrium with challenges is that the level of self-preservation spending must be feasibly optimal from the point of view of the current incumbent. The current incumbent's problem is

$$\begin{aligned} \max_B \{ & \Theta + A - B + \beta [1 - p(B)] V(A, B') \} \\ \text{s.t. } & B \geq 0 \\ & B \leq A. \end{aligned}$$

In choosing B , the incumbent trades off the short-term decline in consumption with the improved probability of surviving until the next period and enjoying the continuation value of office. The feasibility constraints say that self-preservation spending cannot be negative and cannot exceed the resources available to the incumbent.¹⁰

Now define $b(A, B')$ as the solution to the above problem. In an equilibrium, $b(A, B')$ must be a fixed point, or

$$b(A, B') = B'.$$

In the online appendix we show that this fixed-point problem has a unique solution. In particular, there exists a value of A , A_0 (to be characterized shortly), such that the solution is at the corner $B' = 0$ for $A \leq A_0$, while for $A > A_0$, B' is the interior solution to the problem above. We call this interior solution $B^*(A)$. $B^*(A)$ is increasing and concave and satisfies $B^*(A_0) = 0$. The intuition for this result is simple and can be illustrated with reference to the incumbent's problem above. The marginal cost of extra preservation spending is constant and equal to 1. The marginal return is $-p'(B)\beta V(A, B')$ —the improvement in survival probabilities times the value of surviving. Since the value of surviving is increasing in A , there

¹⁰The mechanism highlighted in the model will continue to work even if the government can tap into foreign financial markets to finance self-preservation spending. Foreign borrowing may somewhat reduce the opportunity cost of preservation spending by shifting it to the future, creating a bias toward greater autocracy. Autocrats (like most countries) are likely to face increasing, and indeed convex, supply curves for foreign funds, so the marginal opportunity cost of self-preservation spending will also be increasing and convex. The combination of an increasing and convex marginal opportunity cost of funds with decreasing returns in the self-preservation activity will generate the same concave relation (beyond A_0) between resource endowments and self-preservation spending as in the model with a balanced budget.

can be sufficiently low values of A such that the incumbent renounces all self-preservation efforts. On the other hand, if A is sufficiently large, the incumbent spends (increasing) amounts on self-preservation. The equilibrium amount of self-preservation is the one that equalizes marginal cost and marginal benefit.¹¹

The threshold value A_0 is given by

$$A_0 = \frac{1 - \beta(1 - \Omega) - \beta\Omega\delta\Theta}{\beta\Omega\delta}$$

and is therefore decreasing in the “ego rents” from holding office. Intuitively, the larger the ego rents are, the lower the level of resource rents required to make the incumbent feel that incumbency is valuable enough to invest resources in protecting it. The technology of political replacement also affects A_0 . In particular, a higher productivity of self-preservation spending, δ , makes the incumbent more willing to exert efforts in this direction, lowering the threshold for autocratic behavior.

We think of $B = 0$ as akin to the idea of free and fair political competition, and hence as democracy. Since democracy is the observed equilibrium outcome in many countries, we assume that there exists a region of the parameter space where it occurs. Formally,

Parametric Assumption 1 (PA1): $A_0 > 0$.

A second condition for an equilibrium where the challenger challenges is that challenging is optimal given the level of self-preservation efforts exerted by the incumbent. If the equilibrium incumbent strategy is B , the challenger decides to challenge if

$$p(B)\beta V(A, B) > \Pi. \quad (1)$$

The left-hand side is the expected utility of challenging. This is equal to the time-discounted value of beginning the next period as the incumbent times the probability that the challenge will succeed. The right-hand side is the (certain) utility from not challenging—the outside option Π .¹²

Since the value of holding office is increasing in A , condition (1) is satisfied for any A if it is satisfied for $A = 0$. In turn, the condition is satisfied for $A = 0$ if the following parametric assumption holds.¹³

¹¹ We show in the online appendix that the other constraint, $B \leq A$, is never binding.

¹² Note that Π depends on β . In particular, if π is the flow utility in the private sector, then $\Pi = \pi/(1 - \beta)$.

¹³ To see that PA1 and PA2 are mutually consistent, notice that PA1 can be rewritten as

$$\frac{\beta\Omega\Theta}{1 - \beta(1 - \Omega)} < \frac{1}{\delta}.$$

Parametric Assumption 2 (PA2): $\Pi < \frac{\beta\Omega\Theta}{1 - \beta(1 - \Omega)}$.

Note that for $A = 0$, the incumbent chooses democracy. If PA2 did not hold, incumbents would face no challenges in democracies. This would be counterfactual, so PA2 seems like a plausible assumption. The simple interpretation of PA2 is that the ego rents from office are sufficiently attractive relative to private life to make potential challengers willing to try their luck at politics (when there are no resource rents and the country is a democracy).

A final requirement for an equilibrium where the challenger challenges is that the incumbent does not try to completely deter a challenge in the current period. The deviation that does so is the one that satisfies equation (1) with equality.¹⁴ Call $\tilde{B}_c(A)$ such a deviation. We show that there exists a level of A , \tilde{A} , such that $\tilde{B}_c(A) > A$ for all $A < \tilde{A}$. This says that resource-poor incumbents cannot afford the level of preservation spending that would be required to completely deter challenges. Only when A is sufficiently large can an incumbent entirely deter challenges. The value of \tilde{A} is given by

$$\tilde{A} = \frac{1}{\delta} \log \frac{\beta\Omega\Theta}{\Pi(1 - \beta)}.$$

This is increasing in the ego rents. Larger ego rents mean that potential challengers are less easily deterred: the required investments in self-preservation are larger and therefore unaffordable for a broader range of values of A . Similarly, \tilde{A} is decreasing in the opportunity cost of challenging and in the productivity of spending.

For values of $A \geq \tilde{A}$, deviating to a strategy of complete deterrence is feasible, and the question is whether the deviation is preferred. It turns out that this depends on whether $\log(\delta\Pi) + 1 \geq 0$, in which case the deviation is preferred, or $\log(\delta\Pi) + 1 < 0$, in which case the incumbent sticks to the “interior” (nondetering) amount of preservation spending. The intuition is that both δ and Π reduce the cost of full deterrence, the former by increasing the productivity of preservation spending and the latter by making the challenger more easily convinced thanks to a better outside option.

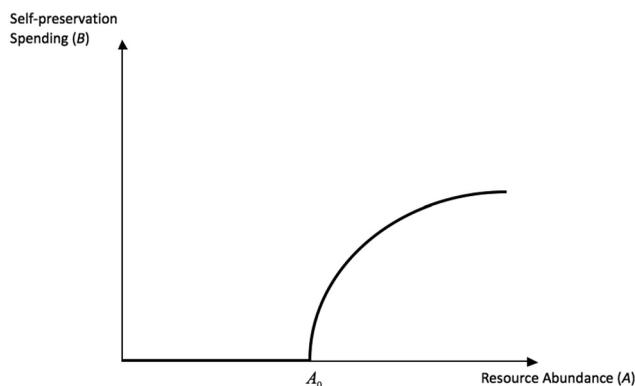
We assume that even when a deviation is feasible, the incumbent will not deviate from the interior strategy.¹⁵ Formally,

Parametric Assumption 3 (PA3): $\log(\delta\Pi) + 1 < 0$.

¹⁴ We implicitly assume that the incumbent does not challenge when indifferent.

¹⁵ If we were to replace PA3 with its opposite and assumed $A_0 \leq \tilde{A}$, then we would have three types of political regimes: democracies ($B = 0$ for $A \leq A_0$); unstable autocracies ($B = B^*$ for $A_0 < A \leq \tilde{A}$); and stable autocracies ($B = \tilde{B}$ for $\tilde{A} < A$), defined as autocracies that choose to completely deter any challenge. The empirical predictions would be quite similar.

FIGURE 1.—THEORETICAL RELATION BETWEEN RESOURCE REVENUES AND AUTOCRACY



This leads to the following summary of the discussion so far.

Lemma 1. *Under PA2 and PA3, an MPE where the challenger challenges exists for all A . If $A \leq A_0$, then $B = 0$ (democracy). If $A > A_0$, then $B = B^*(A)$ (autocracy).*

We can now turn to the conditions for an MPE where the challenger is deterred. In this equilibrium, the incumbent invests an amount $\tilde{B}(A)$ that solves

$$p(\tilde{B})\beta\tilde{V}(A, \tilde{B}) = \Pi,$$

where $\tilde{V}(A, \tilde{B})$ is now the value of incumbency when the challenger does not challenge. $\tilde{B}(A)$ is increasing and concave. By definition of $\tilde{B}(A)$, the challenger is deterred. Not surprisingly it turns out that the policy is feasible if $A \geq \tilde{A}$, but it is preferred by the current incumbent to a one-period deviation to the optimal interior level of B if PA3 holds. Hence, we have the following result:

Lemma 2. *Under PA3, there is no MPE where the challenger is deterred.*

Note that lemmas 1 and 2 imply that the MPE is unique. This gives rise to the following conclusion: *In the unique MPE equilibrium, resource poor-countries are democracies, while resource-rich countries are autocracies. In autocracies, spending on self-preservation is an increasing and concave function of the resource rents.*

This result says that for values of the resource rent that are sufficiently small, the value of staying in office is limited and does not justify spending on self-preservation. Hence, resource poor countries will tend to be democratic. For higher values of resource rents, the incumbent finds it optimal to exert efforts to remain in power and does so up the point where the extra improvement in the expected value of staying in office is equal to the marginal cost of resources spent on self-preservation. Figure 1 depicts the equilibrium amount of self-preservation spending as a function of A .

Note that the threshold A_0 depends on parameters that are potentially country varying. For example, a decline in the effectiveness of self-preservation spending δ or in the ego rents Θ shifts the autocracy threshold A_0 to the right. In other words, countries with greater cultural, geographical, historical, or external resistance to autocracy—all features that should map into a lower value of δ —or countries where the same factors dictate that the balance between the privileges and the responsibilities of political power weighs the latter more (low Θ), will remain in democratic mode for a wider range of values of A . This way, the model can perhaps be seen as consistent with cases of high A associated with free and fair democracy, such as Norway.¹⁶

C. Testable Implications

To get us closer to our empirics, we now consider the following thought experiment. Suppose that at some date, the value of A unexpectedly increases by a (small) amount dA , and all agents expect it to remain constant at this value for the indefinite future (this is all consistent with rational expectations if A is believed to be a random walk). Then we obviously have

$$\begin{aligned} dB &= 0 \text{ for } A \leq A_0, \\ dB &= B^{*'} \text{ for } A_0 < A. \end{aligned}$$

Hence, in resource-poor countries, marginal increases in resource rents lead to no political change. However, in countries with nonnegligible resource rents, further windfalls induce an increase in self-preservation spending. In particular, for intermediate values of the rent flow, the incumbent becomes keener to stay in office and hence increases his efforts in this direction. For even larger initial levels of the resource flow, the incumbent finds that the required amount of spending needed to deter challengers goes up and must correspondingly increase it. Because B^* is a concave function of A , the response of self-preservation spending is decreasing in the resource flow over this range.

Combining the two sets of results on the level of B and the change of B as functions of the initial level of A , it is also possible to recast the latter set of results as conditioned on the initial level of democracy or autocracy. In particular, as we have noted, for low levels of A , countries tend to be democratic. This implies that in democracies, marginal changes in the flow of resource rents have no effect on the political equilibrium. For larger values of the resource rent, countries are autocracies. Hence, we find that in autocracies, marginal changes in the flow of resource rents make the political equilibrium more autocratic. Furthermore, the degree of

¹⁶ The uniqueness of the MPE is, of course, in part a feature of some of our simplifying assumptions. For example, if we allowed a former incumbent to enjoy the flow payoff of private citizens *and* made the value of being a private citizen depend on the amount of repression experienced, it is conceivable that we would have multiple MPEs. In particular, if future governments repress a lot, the value of being a citizen goes down, so current incumbents want to hold on more tightly.

tightening of the autocratic screws is variable. Clearly the concavity of B^* with respect to the initial level of A also carries through to the relationship between the change and the initial level of B . Hence, in autocracies, the increase in autocracy following an increase in resource revenues is diminishing in the initial level of autocracy. For reasons we discuss below, the core empirical work in the paper is based on the predictions of this paragraph.

III. Evidence

A. General Strategy

The main result of the model is a highly nonlinear relationship between resource income A and self-preservation efforts B , as depicted in figure 1. In principle, there are three possible approaches to try to identify this relationship empirically. We discuss the three approaches and explain why only one, which we discuss last, is likely to generate compelling evidence. In discussing the three approaches, we assume we have good measures of A and B . In the next section, we discuss the data in detail.

Given a measure of B , the first plan that comes to mind (plan 1) is to try to get a measure of A and then use nonlinear methods to directly estimate the function in figure 1 using cross-country data in levels. There are at least two problems with this approach. First is the well-rehearsed vulnerability of cross-country relationships to omitted variable bias. There may be plenty of hard-to-account-for factors correlated with both the volume of resource rents and the political system. Second, as discussed at the end of the previous section, the autocracy threshold A_0 is likely to be country specific. Appropriate identification would therefore require explicitly modeling the dependence of A_0 on hard-to-measure country-specific factors. The results would likely be fairly opaque and inconclusive.

Plan 2 investigates the relationship between A and B within countries or, equivalently, in differences, conditioning on the initial level of A . Looking at the effects of changes in A on changes in B eliminates time-invariant confounding country-specific factors that bias inference in levels. Country fixed effects can be added to control for country-specific trends in democracy and autocracy, and time effects can be added to control for global trends. Hence, plan 2 largely sidesteps the first of the identification issues affecting plan 1. However, because it conditions on the initial level of A , plan 2 still requires an estimate of country-specific autocracy thresholds A_0 , so it is still unsatisfactory.

Plan 3, like plan 2, estimates the relationship in differences, but instead of conditioning on the initial level of A , it conditions on the initial level of B . Our theoretical results say that countries to the left of the autocracy threshold are democracies, so we can infer that if a country is a democracy, it is to the left of its A_0 . We therefore expect no effect of changes in A on changes in B in democracies. We also know from the model that countries to the right of A_0 are

autocracies, and the further to the right they are, the more autocratic they are. Hence, we can infer that autocracies are to the right of A_0 , and the more autocratic they are, the further to the right they are. We therefore expect that the effect of changes in A on changes in B is positive in autocracies, the less so the more autocratic the initial position. This plan largely sidesteps both the problem of omitted factors in levels and the country specificity of the autocracy threshold.

B. Data

We construct a measure for B from the variable Polity2 in the Polity IV database (Marshall, Jaggers, & Gurr, 2002). Polity2 is widely used in the empirical political science literature as a measure of the position of a country on a continuum autocracy-democracy spectrum (Acemoglu et al., 2008; Persson & Tabellini, 2006, 2009; Besley & Kudamatsu, 2006; Brückner & Ciccone, 2011). It aggregates information on several building blocks, including political participation (existence of institutions through which citizens can express preferences over policies and leaders), constraints on the executive, and guarantees of civil liberties in both daily life and political participation, as evaluated by Polity IV coders. Polity2 varies continuously from -10 (extreme autocracy) to $+10$ (perfect democracy).¹⁷ Note, therefore, that Polity2 is an inverse measure of B . We follow the convention in the vast majority of the literature that interprets negative values of Polity2 as pertaining to autocracies and positive ones to democracies (Persson & Tabellini, 2006, 2009; Brückner & Ciccone, 2011; Jones & Olken, 2009; Epstein et al., 2006).¹⁸

To map the Polity2 score into a proxy for B we make the following assumption:

$$\text{Polity2}_{it} = \alpha - f(B_{it}) + \varepsilon_{it}, \quad (2)$$

where B_{it} is our variable of interest, f is a monotonic function with $f(0) = 0$, $\alpha > 0$ is a constant, and ε_{it} is an i.i.d. error with zero mean. These assumptions imply that when the government does not attempt to subvert in its favor the political process ($B = 0$), the Polity2 measure tends to be positive and its variation to depend on factors we do not model. Instead, when the government takes an autocratic stance, the Polity2 variable is decreasing in the aggressiveness of this stance.

As long as $f(B)$ is not (too) convex, equation (2) implies that the Polity2 score will inherit the same properties of B in the model. In particular, for values of the Polity2 score associated with democracies (Polity2 > 0 , or $B = 0$), changes in A have no systematic effect on changes in Polity2 score. In autocracies (negative Polity2, or positive B), increases in

¹⁷ We adjust Polity2 by assigning missing values to cases of interregnum and anarchy, which are instead coded as 0 in the original data. The online appendix investigates the robustness of our results to further adjustments.

¹⁸ In the online appendix we discuss alternative thresholds. There, we also present an exercise that attempts to identify the location of the kink in the relationship between changes in B and our measure of resource windfalls. The results are very consistent with a location at (or near) Polity2 = 0.

TABLE 1.—COUNTRIES BY COMMODITY

Princ. Comm.	Number of Countries	Country Name
Oil	30	Algeria, Angola, Azerbaijan, Cameroon, China, Norway, Congo, Ecuador, Egypt, Gabon, Indonesia, Iran, Kazakhstan, Kuwait, Libya, Malaysia, Mexico, Nigeria, Oman, Qatar, Russia, Saudi Arabia, Syria, Trinidad, Tunisia, UAE, United Kingdom, Venezuela, Vietnam, Yemen
Coffee	11	Brazil, Burundi, Colombia, El Salvador, Ethiopia, Guatemala, Haiti, Madagascar, Nicaragua, Rwanda, Uganda
Wood	9	Austria, Canada, Estonia, Finland, Latvia, Lithuania, Portugal, Romania, Sweden
Pig iron	8	Albania, Bhutan, Dominican Republic, Georgia, Japan, Lebanon, Slovakia, Ukraine
Gemstones	7	Armenia, Botswana, Central African Republic, India, Lesotho, Namibia, Sierra Leone
Aluminum	6	Bahrain, Germany, Ghana, Mozambique, Slovenia, Switzerland
Oranges	6	Cyprus, Israel, Italy, Moldova, Spain, Turkey
Cotton	5	Benin, Burkina Faso, Kyrgyzstan, Mali, Sudan
Bananas	4	Costa Rica, Honduras, Panama, Philippines
Beef	4	Djibouti, Ireland, New Zealand, Uruguay
Copper	4	Chile, Mongolia, Peru, Zambia
Fish	4	Bangladesh, South Korea, Malta, Tanzania
Phosphates	4	Jordan, Morocco, Senegal, Togo
Coal	3	Australia, Czech Republic, Poland
Tobacco	3	Greece, Malawi, Zimbabwe
Bauxite	2	Guinea, Jamaica
Natural gas	2	Belgium, Turkmenistan
Rice	2	Pakistan, Thailand
Swine	2	Denmark, The Netherlands
Tea	2	Kenya, Sri Lanka
Wheat	2	Argentina, France
Cocoa	1	Côte d'Ivoire
Gold	1	Papua New Guinea
Groundnuts	1	Gambia
Jute	1	Nepal
Maize	1	United States
Rubber	1	Cambodia
Silver	1	South Africa
Soybean	1	Paraguay
Sugar	1	Eritrea
Tin	1	Bolivia
Uranium	1	Niger

A have negative but decreasing effects on changes in the Polity2 score.

To measure natural resource windfalls at the country level, we proceed as follows. First, for each country and for each year that data are available, we rank all commodities (in the universe of agricultural and mineral commodities) by value of exports. We then identify each country's principal commodity as the commodity that is ranked first in the largest number of years. The export data by commodity, country, and year are from the United Nations' Comtrade data set, which reports dollar values of exports according to the SITC1 system, for the period 1962 to 2009. Finally, we match each country's principal commodity with an annual time series of that commodity's world price. All commodity prices are extracted from the IMF IFS data set, with the exception of gemstones, pig iron, and bauxite, whose price series are obtained from the United States Geological Survey.

We identify a change in A in country i as a change in the price of country i 's principal commodity. As both the identity of a country's principal commodity and its price in international markets are largely exogenous to the country's political outcomes, we think this measure allows clean identification of the causal effects of resource windfalls

(we investigate robustness to dropping the largest producers below).¹⁹

We study changes over the period 1962 to 2009. Our baseline sample consists of 131 countries with information on both principal commodity export shares and Polity2 scores. There are 32 distinct principal commodities in this sample. The most frequent are oil, the principal commodity in 30 countries, and coffee (11 countries). Table 1 gives the list of these principal commodities and their distribution among countries. In the online appendix, we present some illustrative graphs of the time series relationship between lagged price changes and changes in political regime for selected countries.

Summary statistics are presented in table 2. $\Delta Polity2$ is the one-year difference in Polity2, while ΔPr is the average

¹⁹ It would be desirable to check the robustness of our results to nonexport-based methods to identify principal commodities, such as total production or endowments. Unfortunately commodity production and endowment data are not readily available for a large number of countries. We have made an attempt to identify a principal commodity using total output data from the UN Industry Commodity Production Statistics (ICPS), but despite its name, this data set mainly focuses on manufactured goods and does not include many key commodities, such as coffee (our second most represented principal commodity), cotton, tea, and tobacco.

TABLE 2.—SUMMARY STATISTICS

Variable	Mean	SD	Minimum	Maximum	N
$\Delta Polity2$	0.096	1.724	-18	16	5,380
<i>Polity2</i>	0.983	7.538	-10	10	5,572
<i>Polity2 1962</i>	-0.118	7.641	-10	10	93
<i>Polity2 2009</i>	4.145	6.09	-10	10	131
ΔPr	0.078	0.185	-0.366	1.044	5,491
<i>Share</i>	0.058	0.097	0	1	4,048
<i>Country Avg. Share</i>	0.068	0.093	0.001	0.41	6,288
<i>Years Princ. Comm.</i>	22.124	11.851	2	48	6,288
Total years	30.901	15.054	2	48	6,288

growth rate in the price of the principal commodity over a three-year window (we discuss timing issues below). *Country Avg. Share* is the average over time of the value of exports of a country's principal commodity as a share in GDP. *Years Princ. Comm.* indicates the number of years the principal commodity has been the principal export, and *Total Years* is the total number of years in which commodity shares are available. Some of the notable features in the data are the huge variation in the Polity2 score and the secular trend toward greater democracy. The table also shows that principal commodities are ranked first in almost all years in which resource shares are available. Finally, the table shows that there is much variation in the measure of resource windfalls.

A further breakdown of the data, reported in the online Appendix, reveals substantial variation in both the commodity-windfall variable and the political change variable in all decades of the sample period. Hence, our results are not driven by individual eras of particularly volatile commodity prices or political upheaval.

In our model, regime change is triggered by changes in resource rents that are perceived to be permanent. We proxy these changes with changes (over three years) in the commodity spot price. A natural question is whether changes in the spot price are sufficiently persistent to justify using them as proxies for long-run changes in resource income. In the online appendix, we present a variety of tests of stationarity/nonstationarity of our commodity price series. With very few exceptions and across three different testing strategies, we cannot reject (reject) the hypotheses that our commodity price series have unit roots (are stationary).²⁰

²⁰ An alternative strategy to capture changes in expected rents from commodities may be to focus on changes in futures prices. Unfortunately, historical data on futures prices are relatively hard to come by, perhaps because these markets are less liquid and established than most economists tend to assume. The most comprehensive source we were able to identify, for example, features futures prices for only 17 of the 32 principal commodities in our sample. Furthermore, it turns out that contracts exist only for delivery at future dates only relatively close to the present. In particular, for no commodity but oil could we find future prices with a delivery date further than one year in the future. Even for oil, the time series for contracts with a delivery date later than one year suggest that these markets are very illiquid, inducing us to focus on the one-year contract in this case as well. Finally, for most commodities, the sample period for which data are available is significantly shorter than for the spot prices. As we show in the online appendix, despite the much smaller sample size, results using futures prices are entirely in line with those using spot prices. This result is less remarkable than it may seem as the correlation between spot and futures prices is very high.

TABLE 3.—COMMODITY PRICE SHOCKS AND INSTITUTIONAL CHANGE, BASELINE SAMPLE

	(1) LS	(2) LS	(3) LS	(4) SYS-GMM
ΔPr	-0.25 (0.17)			
ΔPr_a		-0.33* (0.18)	-0.42** (0.19)	-0.43* (0.26)
ΔPr_d		0.12 (0.19)	0.13 (0.18)	0.09 (0.24)
$\Delta Pr_a \times Pl_{t-4,a}$			-0.14** (0.06)	-0.19*** (0.07)
$\Delta Pr_d \times Pl_{t-4,d}$			0.04 (0.06)	-0.07 (0.08)
$Pl_{t-4,a}$			-0.06*** (0.02)	-0.04 (0.04)
$Pl_{t-4,d}$			-0.12*** (0.03)	-0.11 (0.07)
Dem_{t-4}		-1.04*** (0.11)	-1.35*** (0.14)	-0.93*** (0.31)
State FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
AR(1)				[0.000]
AR(2)				[0.684]
Number of countries	131	131	131	131
Observations	4,875	4,745	4,745	4,745

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable is the $t-1$ to t change in the revised Polity score (*Polity2*). ΔPr is the average three-year change in the price of the principal commodity. ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t-4$. $Pl_{t-4,a}$ is the country's Polity2 score at $t-4$, minus the average score among autocracies at $t-4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t-4$. The method of estimation in columns 1 to 3 is least squares and in column 4, system-GMM (Blundell-Bond). Standard errors in parentheses are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

C. Results

Our main empirical results are presented in table 3. The dependent variable is the one-year change in Polity2. Recall that an increase in this variable means that the country becomes less autocratic (more democratic). In column 1, the explanatory variable is the lagged change in the price of the principal commodity, averaged over the previous three years. Hence, if the change in Polity2 is measured between years $t-1$ and t , the change in commodity prices is the average over the years $t-4$, $t-3$, $t-2$, and $t-1$. We look at lagged changes in prices to defuse lingering concerns about reverse causation, as well as to allow possible lags in the reaction of political actors to economic events. We take averages of price changes over three periods to reduce the role of extremely transitory shocks, as well as measurement error in the explanatory variable.²¹ By construction, however, the rolling windows introduce serial correlation in the estimates. To account for this, we cluster the standard errors at the country level in all regressions, allowing for heteroskedasticity and arbitrary correlation in the error term. Crucially, country and time fixed effects are included here and in all subsequent specifications.

Column 1 reports estimates for the average effect of resource windfalls, which is negative but not statistically

²¹ This is also the approach followed by Brückner and Ciccone (2010) and discussed in Deaton (1999).

significant. Recall that in our theory, the average effect is a weighted average of nil effects in democracies and negative effects in autocracies, and thus depends on the relative frequency of autocratic and democratic observations. In our sample, the number of democracies exceeds the number of autocracies (2,570 versus 2,305 observations). It is therefore not surprising that the overall effect is not statistically significant.

In the remaining columns, we test our more detailed predictions. Column 2 looks at the effect of price changes in democracies and autocracies separately. This is accomplished by separating out the price change variables into two variables: an interaction between the price change and a dummy for autocracy (following the literature convention that identifies autocracies as countries with a negative Polity2 score) and an interaction between price change and a dummy for democracy (nonnegative Polity2).²² The democracy dummy is also included separately in the model. To be consistent with the starting date for the price shock implied by our lagging choices, we measure the initial level of autocracy or democracy with a four-year lag, or in year $t - 4$. As predicted by the model, price changes in the principal commodity have a negative impact on the Polity2 score in autocracies (i.e., make autocracies more autocratic). Instead, they have no significant impact on the Polity2 score in democracies.

A more specific prediction of our model is that in democracies, commodity price changes will have no impact for any initial level of Polity2, while in autocracies, the magnitude of the effect should be increasing in contestability: small in very aggressive autocracies and larger as the autocracy takes milder forms. We test this prediction in column 3, where we add four-year lags of Polity2 both by themselves and interacted with the (autocracy/democracy specific) price change, the latter being the variable of interest.²³ The conditioning variable has been entered with a lag to allow, once again, potentially slow responses by political actors. As predicted, in democracies, commodity price changes have no impact at any level of initial Polity2, while in autocracies, the increase in autocracy following a resource windfall is larger the higher the initial value of Polity2 (i.e., the less autocratic the form of government was initially).

The results in columns 1 to 3 are based on OLS estimation. Because this is a dynamic panel model with fixed effects, there arises a natural concern with Nickell bias.²⁴ To address this concern, in column 4 we show results using

²² It can be easily checked that this is equivalent to including the price change by itself and then an interaction between the price change and, say, a democracy dummy. Our specification makes the interpretation of the coefficients even more straightforward.

²³ Notice that by interacting the price shock with the four-year lag of Polity2 level, ΔPr_t is no longer capturing the average effect in autocracy but, rather, the effect in the average autocracy.

²⁴ The fixed-effects OLS specification transforms the data in deviations from the group mean, producing a mechanical correlation between the transformed lagged dependent variable and the transformed error term (Nickell, 1981; Bond, 2002).

system-GMM estimation (Blundell & Bond, 1998).²⁵ The system-GMM results are very close to the original OLS. Tests for first- and second-order autocorrelation in the coefficients hint at a proper specification. While we continue to present both OLS and system-GMM results throughout the paper, our discussion emphasizes the OLS coefficients.²⁶

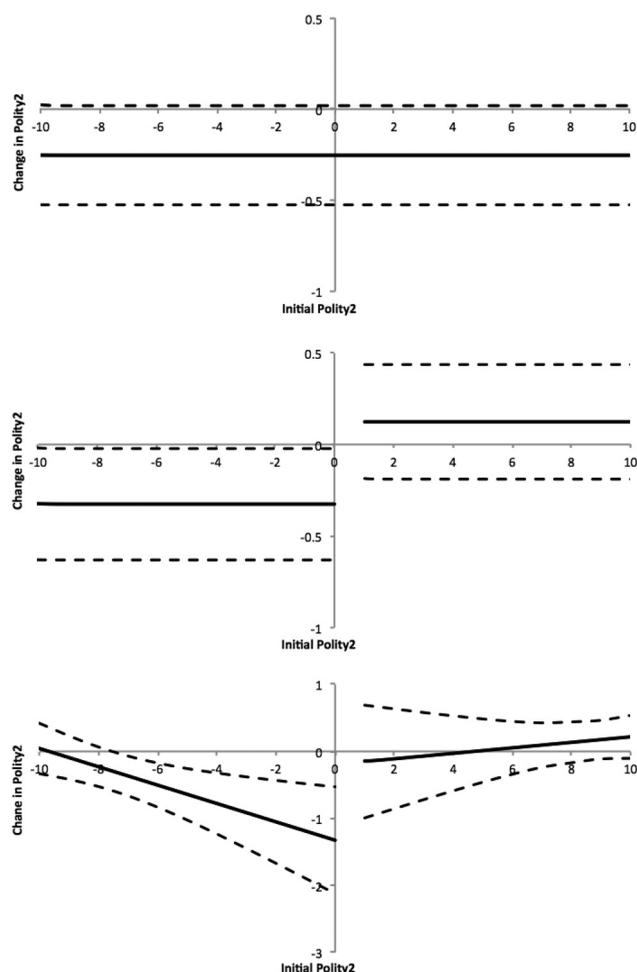
Our main results are illustrated in figure 2, which plots the estimated effect of a change in the price of the principal commodity on the change in Polity2, conditional on the initial level of Polity2, together with 90% confidence bands. In the top panel, we have the average (unconditional) effect, which is negative but insignificant. In the middle panel, we have average effects in democracies and autocracies separately. The effect is negative in autocracies and nil in democracies. In the bottom panel, we plot the response conditional on inframarginal differences in contestability. The increase in autocracies is more severe the milder the initial level of autocracy.

The estimated coefficients imply that the impact of resource windfalls for a weak autocracy (say, at Polity2 level -2) is more than twice as large as the one for a more consolidated autocracy at Polity2 level -6 . In the weak autocracy, the long-run effect of resource windfalls implies that a 10% increase in the price of the principal commodity reduces the Polity2 score by 1.65 points, or 8% of the domain of Polity2 (which goes from -10 to $+10$). For the more consolidated autocracy, the effect of a 10% increase in the price of the principal commodity reduces the Polity2 score by only 0.8 points. An alternative way to put this is that a weak autocracy like Ecuador (average Polity2 score in autocracy -2) needs a 24% price shock to move to a more consolidated form of autocracy, like Nigeria's (average Polity2 score in autocracy -6). For Nigeria to experience a similar 4 point reduction in the Polity scale and become like Saudi Arabia (average Polity2 score in autocracy -10), the price increase in the principal commodity should be 50%.

²⁵ System-GMM provides consistent estimates in dynamic panel data model with fixed effects by taking first differences and instrumenting the differenced variables with all their available lags in levels and differences. Asymptotic results of system-GMM are potentially misleading when T increases, as the instrument count grows large relative to the sample size, overfitting the instrumented variables and failing to expunge their endogenous components. To limit the number of instruments generated in system-GMM, we follow Beck and Levine (2004) and Calderon, Chong, and Loayza (2002), by combining instruments through addition into smaller sets. Collapsing makes the instrument count linear in T , while retaining information as no lags are actually dropped (Roodman, 2009a).

²⁶ As can be seen in the subsequent tables system-GMM and OLS results are typically quite close to each other. This is not surprising given that the large time dimension of our sample ($T = 48$) greatly reduces concerns with Nickell bias in the OLS specification. Indeed, given the structure of our panel, OLS may well be preferable. As Roodman (2009b) pointed out, "If T is large, dynamic panel bias becomes insignificant, and a more straightforward fixed-effects estimator works. Meanwhile, the number of instruments in difference and system-GMM tends to explode with T . If N is small, the cluster-robust standard errors and the Arellano-Bond autocorrelation test may be unreliable."

FIGURE 2.—MARGINAL PRICE EFFECT AT DIFFERENT INITIAL LEVELS OF POLITY



D. Robustness Checks

In this section we report a number of robustness checks on our results from the previous subsection. In particular, we discuss robustness to (a) breaking down the Polity2 score in its components; (b) using alternative criteria for inclusion in the sample based on importance of the principal commodity in the economy; (c) focusing on observations away from the lower and upper bounds of Polity2; (d) dropping large commodity producers with the potential of influencing the world price; (e) measuring resource-rent shocks based on a basket of commodities rather than only the principal commodity; and (f) breaking down commodities by type (mineral versus nonmineral; point source versus diffuse).²⁷

The Polity2 score is a summary measure of three sets of indicators describing constraints on the executive, openness and competitiveness of the recruitment process into the executive, and political competition. All three sets of outcomes

are plausible proxies for B . A turn toward a more autocratic stance will result in fewer constraints on the actions and recruitment process of the executive power and, by definition, less political competition. Hence, our first robustness check is to see whether resource windfalls affect all three subcomponents of Polity2. The results are reported in table 4. The results are in line with those obtained on the overall Polity2 variable: there exists a negative and significant relation, in autocracies only, between commodity windfalls and the change in all three different components of institutional quality. The impact among autocracies is heterogeneous and statistically significant at the 95% confidence level for the three Polity2 sub-scores. Given these results, in the rest of the paper we stick to the overall Polity2 score.

Table 5 checks the robustness of our results to the exclusion of countries whose principal commodity accounts for only a small share of GDP. For these countries it is unlikely that a price change represents a large windfall, so focusing on a smaller sample with significant principal-commodity share is arguably a better test for our model.²⁸ Columns 1 and 2 exclude countries in the first decile of the average share distribution (14 countries, typically modern democracies with a diversified economy), columns 3 and 4 exclude countries in the first quartile (33 countries), and columns 5 and 6 exclude all countries below the median average share (66 countries). Results from baseline sample are confirmed and generally reinforced as we progressively increase the threshold to be included in the sample. In particular the point estimates for the average autocracy become more negative as we focus on more commodity-dependent countries. Also the lagged level of Polity2 interacted with the (autocracy-specific) price change remains negative and significant throughout all subsamples, confirming the heterogeneous impact of resource windfalls within autocracies.

A related concern is that the interaction between the level of autocracy and the price of the principal commodity may proxy for the interaction between the share of the principal commodity in the economy and its price. This would be true if countries for which the principal commodity accounts for a large share of GDP tend to be more autocratic, which is indeed roughly what our model predicts. If this was true, then the coefficient on the interaction term may simply be saying that large resource-rent shocks lead to increases in autocracy while small ones do not. To address this concern in the last two columns of table 5, we add a control for the share of the principal commodity in GDP. Admittedly this procedure is a bit dubious econometrically, as the share in GDP of the principal commodity is almost certainly endogenous. Nevertheless, it does serve as a rough-and-ready check on the hypothesis that the Polity interaction simply proxies

²⁷ In the online appendix we report further checks based on accuracy of the identification of the principal commodity, alternative ways to treat problematic values of Polity2, alternative timing structures for the relationship between outcomes and shocks; alternative thresholds for democracy, and alternative measures of the outcome variable.

²⁸ However, this benefit should be weighed against the fact that the size of the commodity sector is endogenous. Hence, this exercise reintroduces through the back door of sample selection the endogeneity issues we sought to avoid by focusing on price changes. This is why the exercise is a robustness check. Our preferred approach remains the one in the previous section.

TABLE 4.—COMPONENTS OF POLITY2

	$\Delta Exconst$		$\Delta Exec$		$\Delta Polcomp$	
	(1) LS	(2) SYS-GMM	(3) LS	(4) SYS-GMM	(5) LS	(6) SYS-GMM
ΔPr_a	-0.10 (0.07)	-0.10 (0.09)	-0.18** (0.07)	-0.17* (0.09)	-0.09 (0.10)	-0.09 (0.13)
ΔPr_d	0.01 (0.07)	0.00 (0.09)	0.04 (0.06)	0.04 (0.08)	0.07 (0.09)	0.03 (0.12)
$\Delta Pr_a \times Pl_{t-4,a}$	-0.04** (0.02)	-0.05** (0.02)	-0.06** (0.03)	-0.07** (0.03)	-0.07** (0.03)	-0.09** (0.04)
$\Delta Pr_d \times Pl_{t-4,d}$	0.00 (0.02)	-0.03 (0.03)	0.02 (0.02)	-0.02 (0.03)	0.01 (0.03)	-0.02 (0.04)
$Pl_{t-4,a}$	-0.02* (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.02)	-0.04*** (0.01)	-0.02 (0.02)
$Pl_{t-4,d}$	-0.05*** (0.01)	-0.04** (0.02)	-0.02* (0.01)	-0.01 (0.02)	-0.06*** (0.01)	-0.05** (0.02)
Dem_{t-4}	-0.42*** (0.06)	-0.35*** (0.11)	-0.42*** (0.04)	-0.25** (0.12)	-0.56*** (0.06)	-0.37*** (0.12)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
AR(1)		[0.000]		[0.000]		[0.000]
AR(2)		[0.776]		[0.629]		[0.695]
Number of countries	131	131	131	131	131	131
Observations	4,745	4,745	4,745	4,745	4,745	4,745

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable in columns 1 and 2 is the $t - 1$ to t change in the Polity IV subscore of constraints on the executive (Exconst), whose range is [1, 7]. In columns 3 and 4 is the $t - 1$ to t change in the Polity IV subscore of constraints on the executive recruitment (Exec), whose range is [1, 8]. In columns 5 and 6 is the $t - 1$ to t change in the Polity IV subscore of political competition (Polcomp), whose range is [1, 10]. ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t - 4$. $Pl_{t-4,a}$ is the country's Polity2 score at $t - 4$, minus the average score among autocracies at $t - 4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t - 4$. The method of estimation in columns 1, 3, and 5 is least squares and in columns 2, 4, and 6 system-GMM (Blundell-Bond). Standard errors in parenthesis are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

TABLE 5.—ACCOUNT FOR EXPORT SHARE

	Excluding Countries in the First Decile		Excluding Countries in the First Quartile		Excluding Countries Below the Median		Control for Share	
	(1) LS	(2) SYS-GMM	(3) LS	(4) SYS-GMM	(5) LS	(6) SYS-GMM	(7) LS	(8) SYS-GMM
ΔPr_a	-0.41** (0.20)	-0.46 (0.28)	-0.41* (0.21)	-0.51* (0.30)	-0.58** (0.26)	-0.80** (0.38)	-0.38* (0.21)	-0.64* (0.34)
ΔPr_d	0.31* (0.18)	0.29 (0.25)	0.34* (0.20)	0.31 (0.29)	0.42 (0.31)	0.31 (0.35)	0.23 (0.19)	0.10 (0.24)
$\Delta Pr_a \times Pl_{t-4,a}$	-0.13** (0.06)	-0.18** (0.07)	-0.17*** (0.05)	-0.21*** (0.07)	-0.13** (0.06)	-0.17** (0.07)	-0.17** (0.07)	-0.25** (0.11)
$\Delta Pr_d \times Pl_{t-4,d}$	0.04 (0.06)	-0.08 (0.08)	0.05 (0.07)	-0.08 (0.08)	-0.08 (0.09)	-0.25* (0.13)	0.03 (0.06)	-0.05 (0.07)
$Pl_{t-4,a}$	-0.08*** (0.03)	-0.05 (0.04)	-0.07*** (0.02)	-0.05 (0.04)	-0.07** (0.03)	-0.07 (0.06)	-0.05* (0.03)	0.05 (0.06)
$Pl_{t-4,d}$	-0.13*** (0.03)	-0.13* (0.07)	-0.13*** (0.03)	-0.13* (0.08)	-0.07 (0.04)	-0.10 (0.07)	-0.12*** (0.03)	-0.16** (0.07)
Share							-0.06 (0.43)	-1.62* (0.98)
Dem_{t-4}	-1.39*** (0.15)	-0.99*** (0.31)	-1.39*** (0.16)	-0.87*** (0.32)	-1.31*** (0.18)	-0.92*** (0.31)	-1.32*** (0.19)	-0.89** (0.38)
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
AR(1)		[0.000]		[0.000]		[0.000]		[0.000]
AR(2)		[0.119]		[0.071]		[0.553]		[0.628]
Number of countries	117	117	98	98	65	65	131	131
Observations	4,217	4,217	3,593	3,593	2,399	2,399	3,599	3,599

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable is the $t - 1$ to t change in the revised Polity score (Polity2). ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t - 4$. $Pl_{t-4,a}$ is the country's Polity2 score at $t - 4$, minus the average score among autocracies at $t - 4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t - 4$. Columns 1 and 2 exclude countries in the first decile of average share for the principal commodity. Columns 3 and 4 exclude countries in the first quartile of average share for the principal commodity. Columns 5 and 6 exclude countries below the median of average share for the principal commodity. Columns 7 and 8 control for the export share level. The method of estimation in columns 1, 3, 5, and 7 is least squares, in columns 2, 4, 6, and 8 system-GMM (Blundell-Bond). Standard errors in parentheses are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

for the share of the principal commodity in GDP. As can be seen, whether estimated by least squares or by system GMM, principal commodity price increases reduce democracy, at decreasing rates, in autocracies only, even after controlling

for the share of the principal commodity in GDP. Because of the endogeneity of the principal-commodity share, in all other robustness checks we return to the specification that omits this variable.

TABLE 6.—BOUNDEDNESS OF POLITY2 SCORE

	$\Delta Pl \geq 0$		D = 1 $\Delta Pl \geq 0$		Unbounded Countries		Unbounded Observations	
	(1) LS	(2) SYS-GMM	(3) LS	(4) SYS-GMM	(5) LS	(6) SYS-GMM	(7) LS	(8) SYS-GMM
ΔPr_a	-0.45** (0.17)	-0.72** (0.35)	-0.05 (0.03)	-0.06 (0.04)	-0.39* (0.23)	-0.48 (0.32)	-0.41* (0.21)	-0.44 (0.30)
ΔPr_d	-0.01 (0.12)	-0.27 (0.21)	-0.01 (0.03)	0.00 (0.03)	0.09 (0.29)	0.01 (0.36)	0.12 (0.26)	0.05 (0.32)
$\Delta Pr_a \times Pl_{t-4,a}$	-0.16*** (0.05)	-0.13 (0.14)	-0.03** (0.01)	-0.04** (0.01)	-0.13 (0.08)	-0.20** (0.09)	-0.14* (0.07)	-0.18** (0.09)
$\Delta Pr_d \times Pl_{t-4,d}$	0.03 (0.04)	0.07 (0.07)	0.01 (0.01)	0.00 (0.01)	0.07 (0.12)	-0.02 (0.14)	0.03 (0.11)	-0.07 (0.12)
$Pl_{t-4,a}$	-0.01 (0.02)	0.06 (0.05)	-0.00 (0.00)	0.00 (0.01)	-0.08*** (0.03)	-0.04 (0.04)	-0.08*** (0.03)	-0.03 (0.04)
$Pl_{t-4,d}$	-0.07*** (0.02)	-0.09** (0.04)	-0.01*** (0.00)	-0.01 (0.01)	-0.15*** (0.03)	-0.12 (0.07)	-0.13*** (0.03)	-0.09 (0.07)
Dem_{t-4}	-0.85*** (0.12)	-0.41 (0.25)	-0.13*** (0.02)	-0.07** (0.03)	-1.25*** (0.14)	-0.84*** (0.29)	-1.26*** (0.13)	-0.74** (0.33)
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
AR(1)		[0.000]		[0.000]		[0.000]		[0.000]
AR(2)		[0.010]		[0.001]		[0.238]		[0.814]
Number of countries	131	131	131	131	90	90	107	107
Observations	4,593	4,593	4,745	4,745	3,223	3,223	3,635	3,635

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable is the $t - 1$ to t change in the revised Polity score (*Polity2*). ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t - 4$. $Pl_{t-4,a}$ is the country's Polity2 score at $t - 4$, minus the average score among autocracies at $t - 4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t - 4$. Columns 1 and 2 consider nonnegative *Polity2* changes only. Columns 3 and 4 estimate a dummy variable equal to 1 if there is a positive *Polity2* change and 0 otherwise. Columns 5 and 6 restrict the sample to countries that never touched the boundaries at -10 and $+10$ on the Polity scale. Columns 7 and 8 exclude the observations at -10 and $+10$. The method of estimation in columns 1, 3, 5, and 7 is least squares, in columns 2, 4, 6, and 8 system-GMM (Blundell-Bond). Standard errors in parentheses are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

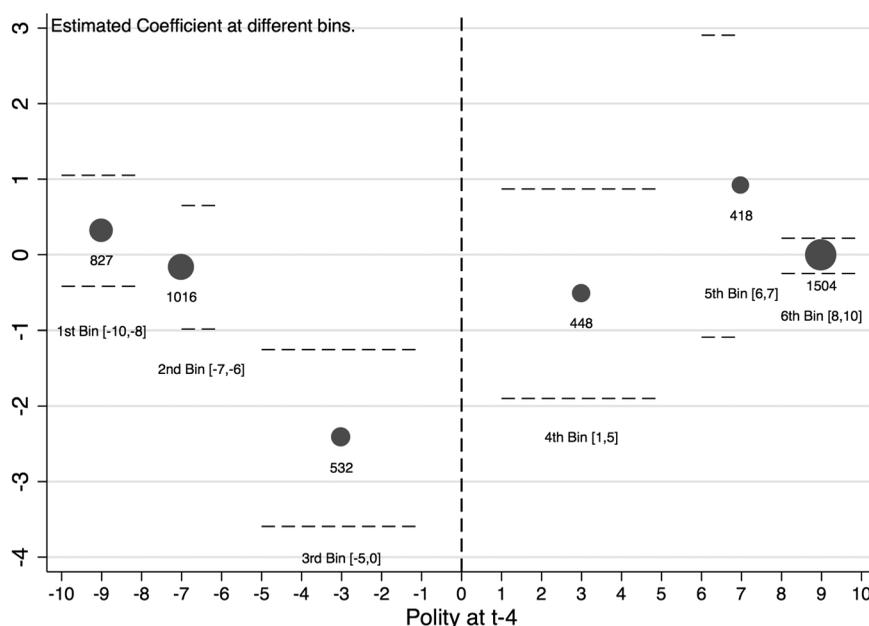
Table 6 investigates the robustness of our result on the heterogeneous impact of resource windfalls within autocracies. One potential concern is that such heterogeneity might be driven by the boundedness of the Polity scale. The argument is that observations at the -10 boundary are more constrained in their movements than nonboundary observations. In particular, as they can not go lower than -10 , price increases would not result in institutional changes. We address this concern in a number of ways. In columns 1 and 2, we restrict the sample to nonnegative Polity2 changes, so that countries at the -10 boundary are unconstrained in their movements. We still find a negative and significant heterogeneous effect among autocracies. In columns 3 and 4, we perform a similar exercise but replace the Polity2 change by a dummy variable that takes the value of 1 if we observe a positive change and 0 otherwise. This weighs all institutional changes equally. The heterogeneous impact of price variation is also maintained under this specification. Columns 5 and 6 restrict the sample to all countries that never touched the $[-10, +10]$ boundaries. This is the sample of countries that had effective free movements in both positive and negative directions. Also in this case, we find a negative and significant effect among autocracies. Finally, in columns 7 and 8, we exclude all country-year observations at the $[-10, 10]$ boundaries. Limiting the sample to the unbounded cases provides consistent estimates for censored regressors (Rigobon & Stoker, 2007, 2009). The results again confirm the heterogeneity among autocracies.

In a further effort to probe the role of observations at the -10 boundary, we estimate the heterogeneous effect of price changes nonparametrically. We divide all observations into

six bins, depending on the value of Polity2, and reestimate the relationship between changes in Polity2 and changes in principal commodity prices separately for each of these bins (always including country and year fixed effects). The six bins are for Polity2 values $[-10, -8]$, $[-7, -6]$, $[-5, 0]$, $[1, 5]$, $[6, 7]$, and $[8, 10]$, respectively. These bin sizes were chosen to have as uniform as possible a sample size across bins, while at the same time preserving symmetry between “autocratic” and “democratic” bins. The estimated coefficients and the relative confidence bands (at the 90% level) are plotted against the average value of Polity2 in each bin in figure 3. The figure shows that even in the second bin from the bottom, the effect of price changes is considerably weaker than in the third bin. This is important because for observations in this bin, the lower bound at -10 does not appear ever to be binding. To check this, we have calculated, for each initial value of the Polity2 variable on the right-hand side of our main regression, the fraction of (strictly) negative policy changes equal to the distance from the lower bound, on the left-hand side. For example, for observations at $Polity2 = -7$, we computed the fraction of changes equal to -3 . The results, reported in table A10 in the online appendix (together with the analogous numbers for positive changes), show that the lower bound at -10 is never binding for changes in any of the five bins other than the bottom bin.

In table 7 we address the plausible concern that current commodity prices are affected by expectations of future political developments in the main world producers. We therefore exclude from the sample all countries belonging to OPEC (columns 1 and 2) and those accounting for more than 3% of total world production of their principal commodity

FIGURE 3.—ESTIMATED COEFFICIENT AT DIFFERENT BINS



(columns 3 and 4).²⁹ Despite the significant drop in sample size, in our key specifications, the results on the heterogeneous impact among autocracies remain robust at least at the 10% significance level.

Our source of identification for resource windfalls stems from variations in the international price of the principal commodity. Other authors in this field (Deaton, 1999; Brückner & Ciccone, 2010; Besley & Persson, 2011) instead use a country-specific composite price index, weighting commodity prices by each commodity’s share in the country’s total exports. We have not followed this strategy because of concerns with the possible endogeneity of commodity shares (as well as measurement error). However, in table 8 we check the robustness of our results to this alternative specification, constructing a country-specific index based on commodities in our sample. In columns 1 and 2, we weigh price changes by each country’s time average of the share of that commodity in exports. Because time coverage of the share data varies dramatically over time, these averages are also computed over very different time periods from country to country. In the other columns, we follow the far superior practice of using shares in a given year. The downside of this is that sample sizes shrink significantly, as in each year there is a sizable subset of countries for which shares are not observed. In these experiments, the qualitative patterns of our baseline results are robust, but statistical significance is not always achieved.

²⁹ We treat Indonesia and Gabon as OPEC countries, as they belonged to the organization for more than half of the sample period. Instead, we exclude Angola and Ecuador, which joined the OPEC only in 2007. Alternative treatments of these countries do not alter the results. A list of the major producers by principal commodity, as well as data sources for commodity production, is given in table A2 in the online appendix.

TABLE 7.—EXCLUDING BIG PRODUCERS

	Exclude OPEC Countries		Exclude Big Producers	
	(1) LS	(2) SYS-GMM	(3) LS	(4) SYS-GMM
ΔPr_a	-0.43** (0.21)	-0.36 (0.28)	-0.54** (0.24)	-0.54 (0.33)
ΔPr_d	0.10 (0.19)	0.02 (0.25)	-0.03 (0.25)	-0.24 (0.36)
$\Delta Pr_a \times Pl_{t-4,a}$	-0.15** (0.07)	-0.21** (0.08)	-0.15* (0.08)	-0.23** (0.09)
$\Delta Pr_d \times Pl_{t-4,d}$	0.04 (0.06)	-0.00 (0.07)	0.07 (0.08)	0.03 (0.11)
$Pl_{t-4,a}$	-0.07** (0.03)	-0.03 (0.04)	-0.08*** (0.03)	-0.06 (0.05)
$Pl_{t-4,d}$	-0.12*** (0.03)	-0.12* (0.07)	-0.13*** (0.04)	-0.11 (0.10)
Dem_{t-4}	-1.31*** (0.13)	-1.00*** (0.32)	-1.42*** (0.18)	-1.27*** (0.43)
State FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
AR(1)		[0.000]		[0.000]
AR(2)		[0.750]		[0.770]
Number of countries	120	120	87	87
Observations	4,283	4,283	3,004	3,004

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable is the $t - 1$ to t change in the revised Polity score ($Polity_2$). ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t - 4$. $Pl_{t-4,a}$ is the country’s Polity2 score at $t - 4$, minus the average score among autocracies at $t - 4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t - 4$. Columns 1 and 2 exclude OPEC countries. Columns 3 and 4 exclude countries producing more than 3% of total world production in their principal commodity. Details on the sources used to identify big producers are reported in appendix table A2. The method of estimation in columns 1 and 3 is least squares and in columns 2 and 4, system-GMM (Blundell-Bond). Standard errors in parentheses are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

In table 9 we deal with the issue of commodity typology. An important distinction that has been made in the literature is between point source and diffuse natural commodities (Sokoloff & Engerman, 2000; Isham et al., 2005). The former are believed to foster weaker institutional capacity and

TABLE 8.—ALTERNATIVE COMMODITY PRICE INDEX

	Average Weight		Weight 1975		Weight 1980		Weight 1990		Weight 2001	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	LS	SYS-GMM								
ΔPr_a	-0.39 (0.25)	-0.36 (0.36)	-0.49* (0.28)	-0.34 (0.40)	-0.46 (0.28)	-0.36 (0.32)	-0.52* (0.30)	-0.28 (0.33)	-0.52* (0.28)	-0.60* (0.35)
ΔPr_d	0.20 (0.33)	0.40 (0.42)	0.31 (0.38)	1.03* (0.55)	0.29 (0.22)	0.47 (0.33)	0.09 (0.37)	0.22 (0.46)	0.29 (0.34)	0.73 (0.54)
$\Delta Pr_a \times Pl_{t-4,a}$	-0.10 (0.09)	-0.15 (0.11)	-0.12 (0.08)	-0.19* (0.10)	-0.16* (0.09)	-0.25** (0.10)	-0.22** (0.09)	-0.20** (0.09)	-0.11 (0.08)	-0.18* (0.10)
$\Delta Pr_d \times Pl_{t-4,d}$	0.07 (0.09)	-0.13 (0.11)	0.12 (0.10)	-0.20 (0.20)	-0.01 (0.09)	-0.09 (0.11)	0.01 (0.15)	-0.06 (0.17)	0.08 (0.08)	-0.16 (0.14)
$Pl_{t-4,a}$	-0.07*** (0.02)	-0.04 (0.04)	-0.07** (0.03)	-0.07 (0.04)	-0.06** (0.03)	-0.04 (0.04)	-0.03 (0.03)	-0.00 (0.04)	-0.07*** (0.02)	-0.06 (0.04)
$Pl_{t-4,d}$	-0.10*** (0.03)	-0.11* (0.06)	-0.10*** (0.04)	-0.13* (0.07)	-0.06 (0.04)	-0.09 (0.08)	-0.06 (0.04)	-0.05 (0.08)	-0.10*** (0.03)	-0.12* (0.06)
Dem_{t-4}	-1.32*** (0.13)	-1.02*** (0.27)	-1.43*** (0.17)	-1.11*** (0.29)	-1.29*** (0.14)	-1.04*** (0.25)	-1.20*** (0.15)	-0.83*** (0.30)	-1.32*** (0.13)	-1.07*** (0.26)
State FE	Yes									
Year FE	Yes									
AR(1)		[0.000]		[0.000]		[0.000]		[0.000]		[0.000]
AR(2)		[0.467]		[0.758]		[0.016]		[0.425]		[0.088]
Number of countries	131	131	84	84	82	82	78	78	122	122
Observations	4,962	4,962	3,600	3,600	3,527	3,527	3,327	3,327	4,629	4,629

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable is the $t-1$ to t change in the revised Polity score (*Polity2*). ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t-4$. $Pl_{t-4,a}$ is the country's Polity2 score at $t-4$, minus the average score among autocracies at $t-4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t-4$. All columns follow the methodology in Deaton and Miller (1995) to construct the weighted price index of commodities. We use all commodities included in the UN COMTRADE database and whose price series is identified in the IMF IFS database. Columns 1 and 2 weigh commodities by their average share in country exports, measured over all available years. Columns 3 and 4 weigh commodities by their share in 1975, the base year used in Deaton and Miller (1995). Columns 5 and 6 weigh commodities by their share in 1980, the base year used in Besley and Persson (2011). Columns 7 and 8 weigh commodities by their share in 1990, the base year used in Deaton (1999) and Brückner and Ciccone (2010). Columns 9 and 10 weigh commodities by their share in 2001, the year with the highest number of reporting countries. The method of estimation in columns 1, 3, 5, 7, and 9 is least squares and in columns 2, 4, 6, 8, and 10 system-GMM (Blundell-Bond). Standard errors in parentheses are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

TABLE 9.—TYPOLOGIES OF COMMODITIES

	First Classification				Second Classification				Third Classification			
	Point Source		Diffuse		Mineral		Nonmineral		Oil		Nonoil	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	LS	SYS-GMM	LS	SYS-GMM	LS	SYS-GMM	LS	SYS-GMM	LS	SYS-GMM	LS	SYS-GMM
ΔPr_a	-0.37* (0.21)	-0.41 (0.29)	-1.68** (0.82)	-1.35 (0.81)	-0.22 (0.29)	-0.23 (0.36)	-1.09*** (0.40)	-0.66 (0.44)	-0.30* (0.15)	-0.36 (0.22)	-0.96*** (0.29)	-0.79** (0.38)
ΔPr_d	0.24 (0.22)	0.22 (0.25)	-0.38 (0.44)	-0.17 (0.60)	0.22 (0.27)	0.20 (0.31)	-0.21 (0.33)	-0.16 (0.42)	0.22 (0.23)	0.31 (0.28)	-0.14 (0.19)	-0.34 (0.27)
$\Delta Pr_a \times Pl_{t-4,a}$	-0.18*** (0.05)	-0.22*** (0.07)	0.34 (0.57)	0.54 (0.63)	-0.12** (0.05)	-0.12* (0.07)	-0.03 (0.21)	-0.04 (0.24)	-0.08 (0.06)	-0.07 (0.08)	-0.08 (0.12)	-0.16 (0.12)
$\Delta Pr_d \times Pl_{t-4,d}$	0.02 (0.07)	-0.10 (0.08)	0.14 (0.13)	0.23* (0.13)	0.06 (0.07)	-0.05 (0.07)	-0.01 (0.13)	0.04 (0.16)	-0.04 (0.11)	-0.08 (0.13)	0.04 (0.07)	-0.04 (0.09)
$Pl_{t-4,a}$	-0.05** (0.02)	-0.04 (0.04)	-0.12 (0.08)	-0.10 (0.10)	-0.08*** (0.02)	-0.07 (0.05)	-0.05 (0.05)	-0.02 (0.06)	-0.08* (0.04)	-0.08 (0.06)	-0.07** (0.03)	-0.03 (0.04)
$Pl_{t-4,d}$	-0.11*** (0.03)	-0.07 (0.05)	-0.12** (0.05)	-0.17 (0.12)	-0.12*** (0.03)	-0.15*** (0.05)	-0.11*** (0.04)	-0.11 (0.11)	-0.10 (0.07)	-0.07 (0.09)	-0.13*** (0.03)	-0.16** (0.07)
Dem_{t-4}	-1.34*** (0.17)	-0.64* (0.34)	-1.37*** (0.22)	-1.38*** (0.46)	-1.39*** (0.20)	-1.02*** (0.34)	-1.31*** (0.17)	-1.06*** (0.39)	-1.92*** (0.56)	-1.70** (0.69)	-1.37*** (0.13)	-1.13*** (0.30)
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
AR(1)		[0.000]		[0.000]		[0.000]		[0.000]		[0.000]		[0.000]
AR(2)		[0.973]		[0.526]		[0.676]		[0.683]		[0.187]		[0.816]
Number of countries	87	87	44	44	70	70	61	61	30	30	101	101
Observations	3,127	3,127	1,618	1,618	2,494	2,494	2,251	2,251	1,152	1,152	3,593	3,593

Significantly different from 0 at *90%, **95%, ***99%. The dependent variable is the $t-1$ to t change in the revised Polity score (*Polity2*). ΔPr_a is the average three-year change in the price of the principal commodity, multiplied by a dummy variable equal to 1 if the country is autocratic at $t-4$. $Pl_{t-4,a}$ is the country's Polity2 score at $t-4$, minus the average score among autocracies at $t-4$. ΔPr_d and $Pl_{t-4,d}$ are the corresponding definitions for democracies. Dem_{t-4} is a dummy variable equal to 1 if the country is democratic at $t-4$. Mineral commodities are aluminium, bauxite, coal, copper, gemstones, gold, natural gas, oil, pig iron, phosphates, silver, tin, and uranium. Nonmineral commodities are bananas, beef meat, cocoa, coffee, cotton, fish, groundnuts, jute, maize, oranges, rice, rubber, soybean, sugar, swine meat, tea, tobacco, wheat, and wood. The point source/diffuse distinction follows almost the same classification, but assigns countries producing bananas, cocoa, coffee, and sugar to the other category. The method of estimation in columns 1, 3, 5, 7, 9, and 11 is least squares and in columns 2, 4, 6, 8, 10, and 12, system-GMM (Blundell-Bond). Standard errors in parentheses are Huber robust and clustered at the country level. The values reported for AR(1) and AR(2) are the p -values for first- and second-order autocorrelated disturbances in the first differences equations.

induce greater resistance to democratic reforms than the latter, as they are generally more valuable and easier to control for the ruling elite. We therefore expect our theory to apply more strictly to countries whose principal commodity is point source. We take as point source all mineral commodities plus coffee, cocoa, sugar, and bananas—agricultural commodities identified as point source in Sokoloff and Engerman (2000) and Isham et al. (2005). Our data show that point source producers are indeed more autocratic (average Polity2 level -0.36) than countries with diffuse principal commodities (average Polity2 level 3.57). A mean comparison test rejects the null hypothesis of means equality at the 99% confidence level (t -stat 17.56). Columns 1 and 2 in table 9 confirm our baseline results for the sample of point source producers: the impact of resource windfalls is negative and heterogeneous within autocracies, while it has no effect in democracies. Columns 3 and 4 show instead an average significant effect for diffuse commodity producers, but no significant heterogeneity. In columns 5 to 8, we consider an alternative classification, taking as point source commodities minerals only. Columns 5 and 6 confirm the results for mineral autocratic countries. Columns 7 and 8 consider nonmineral countries only and display a negative average relation between price and institutional change, with no evidence of heterogeneity in the effect. In the last set of columns, we tried to check whether the difference in results between point source/mineral and diffuse/nonmineral is driven by oil. Unfortunately, the oil sample becomes too small for significant results, but the similarity of coefficients suggests that oil is not the only mineral driving the heterogeneous effect of resource booms in autocracies. Altogether, table 9 provides support for our theory in point source producers under both alternative classifications, while it is less conclusive for diffuse commodities producers.³⁰

The final robustness check we performed was on the sensitivity of our results to possible outliers. We reran our specifications excluding all the observations in the top 1% of the distribution of price changes (in absolute value) or in the top 1% of the distribution of Polity2 changes. We also excluded all influential observations, as identified by the DFBETA method, once again without changes in results. These results are available on request.

IV. Conclusion

We have presented a model of endogenous political regime determination as a function of natural resource rents. The model predicts that, everything else equal, resource-poor countries will be more likely to be democracies than resource-rich ones. This is a notoriously difficult prediction to test. Hence, we use the model to develop an additional testable implication that, we argue, better leads itself to

causal identification. This prediction is that among autocracies, resource windfalls will trigger further moves toward harsher forms of autocracy, the more so the less entrenched the autocracy was initially, while there is no impact in countries that start out as democracies. These predictions find empirical support in a broad panel of countries.

Future work could usefully look at other outcomes. We have briefly discussed the possibility of extending the model to deliver predictions on uses of the resource rents other than to distort the political rules of the game in the incumbent's favor, such as spending on education or infrastructure. This could be extended to generate predictions on the growth response of the economy to resource windfalls. It seems likely that such extensions will produce similar nonmonotonicities in the relation between resource windfalls and outcomes, as we found in this paper, and that such predictions could be tested using a similar conditioning strategy.

The nonmonotonicities we uncover, both theoretical and empirical, imply a more nuanced policy response to natural resource windfalls than has generally been the case heretofore. While our empirical work focuses on local changes in resource rents, the model predicts that a large discrete resource windfall has the capacity to tip a democracy into autocracy. Countries close to the democracy-autocracy threshold are therefore more vulnerable to the impact of large resource discoveries and should be the focus of heightened attention from policymakers in importing countries and extractive industries alike.

REFERENCES

- Acemoglu, D., S. Johnson, J. A. Robinson, and P. Yared, "Income and Democracy," *American Economic Review* 98 (2008), 808–842.
- Acemoglu, D., T. Verdier, and J. A. Robinson, "Kleptocracy and Divide-and-Rule: A Model of Personal Rule," *Journal of the European Economic Association* 2 (2004), 162–192.
- Alexeev, M., and R. Conrad, "The Elusive Curse of Oil," this REVIEW 91 (2009), 586–598.
- Andersen, J. J., and S. Aslaksen, "Oil and Political Survival," *Journal of Development Economics* 100 (2013), 89–106.
- Baland, J.-M., and P. Francois, "Rent-Seeking and Resource Booms," *Journal of Development Economics* 61 (2000), 527–542.
- Barro, R. J., "The Control of Politicians: An Economic Model," *Public Choice* 14:1 (1973), 19–42.
- "Determinants of Democracy," *Journal of Political Economy* 107:S6 (1999), S158–S183.
- Beck, T., and R. Levine, "Stock Markets, Banks, and Growth: Panel Evidence," *Journal of Banking and Finance* 28 (2004), 423–442.
- Besley, T., and M. Kudamatsu, "Health and Democracy," *American Economic Review* 96 (2006), 313–318.
- Besley, T., and T. Persson, "The Logic of Political Violence," *Quarterly Journal of Economics* 126 (2011), 1411–1425.
- Blundell, R., and S. Bond, "Initial Conditions and Moment Restrictions in Dynamic Panel Data Models," *Journal of Econometrics* 87 (1998), 115–143.
- Bond, S. R., "Dynamic Panel Data Models: A Guide to Micro Data Methods and Practice," *Portuguese Economic Journal* 1 (2002), 141–162.
- Brückner, M., and A. Ciccone, "International Commodity Prices, Growth and the Outbreak of Civil War in Sub-Saharan Africa," *Economic Journal* 120 (2010), 519–534.
- "Rain and the Democratic Window of Opportunity," *Econometrica* 79 (2011), 923–947.

³⁰ In a related finding, Andersen and Aslaksen (2013) report that the probability of leadership change decreases following windfalls in the form of oil and lootable diamonds, while it increases following mineral windfalls.

- Brückner, M., A. Ciccone, and A. Tesei, "Oil Price Shocks, Income, and Democracy," this REVIEW 94 (2012), 389–399.
- Burke, P. J., and A. Leigh, "Do Output Contractions Trigger Democratic Change?" *American Economic Journal: Macroeconomics* 2 (2010), 124–157.
- Cabrales, A., and E. Hauk, "The Quality of Political Institutions and the Curse of Natural Resources," *Economic Journal* 121 (2011), 58–88.
- Calderon, C. A., A. Chong, and N. V. Loayza, "Determinants of Current Account Deficits in Developing Countries," *Contributions in Macroeconomics* 2(1) (2002).
- Caselli, F., "Power Struggles and the Natural Resource Curse," working paper, London School of Economics (2006).
- Caselli, F., and W. J. Coleman, "On the Theory of Ethnic Conflict," *Journal of the European Economic Association* 11 (2013), 161–192.
- Caselli, F., and T. Cunningham, "Leader Behaviour and the Natural Resource Curse," *Oxford Economic Papers* 61 (2009), 628–650.
- Caselli, F., and G. Michaels, "Do Oil Windfalls Improve Living Standards? Evidence from Brazil," *American Economic Journal: Applied Economics* 5 (2013), 208–238.
- Caselli, F., M. Morelli, and D. Rohner, "The Geography of Inter-State Resource Wars," NBER technical report (2013).
- Collier, P., and A. Hoeffler, "Testing the Neocon Agenda: Democracy in Resource-Rich Societies," *European Economic Review* 53 (2009), 293–308.
- Cotet, A. M., and K. K. Tsui, "Oil and Conflict: What Does the Cross Country Evidence Really Show?" *American Economic Journal: Macroeconomics* 5 (2013), 49–80.
- Dalgaard, C.-J., and O. Olsson, "Windfall Gains, Political Economy and Economic Development," *Journal of African Economies* 17 (2008), 72–109.
- Deaton, A., "Commodity Prices and Growth in Africa," *Journal of Economic Perspectives* 13 (1999), 23–40.
- Deaton, A., and R. I. Miller, *International Commodity Prices, Macroeconomic Performance, and Politics in Sub-Saharan Africa* (Princeton, NJ: International Finance Section, Department of Economics, Princeton University, 1995).
- Dube, O., and J. F. Vargas, "Commodity Price Shocks and Civil Conflict: Evidence from Colombia," *Review of Economic Studies* 80 (2013), 1384–1421.
- Dunning, T., *Crude Democracy: Natural Resource Wealth and Political Regimes* (Cambridge: Cambridge University Press Cambridge, 2008).
- Egorov, G., S. Guriev, and K. Sonin, "Why Resource-Poor Dictators Allow Freer Media: A Theory and Evidence from Panel Data," *American Political Science Review* 103 (2009), 645–668.
- Epstein, D. L., R. Bates, J. Goldstone, I. Kristensen, and S. O'Halloran, "Democratic Transitions," *American Journal of Political Science* 50 (2006), 551–569.
- Geddes, B., "What Do We Know about Democratization after Twenty Years?" *Annual Review of Political Science* 2 (1999), 115–144.
- Glaeser, E. L., G. A. Ponzetto, and A. Shleifer, "Why Does Democracy Need Education?" *Journal of Economic Growth* 12 (2007), 77–99.
- Haber, S., and V. Menaldo, "Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse," *American Political Science Review* 105 (2011), 1–26.
- Haggard, S., and R. R. Kaufman, "The Political Economy of Democratic Transitions," *Comparative Politics* 29 (1997), 263–283.
- Isham, J., M. Woolcock, L. Pritchett, and G. Busby, "The Varieties of Resource Experience: Natural Resource Export Structures and the Political Economy of Economic Growth," *World Bank Economic Review* 19 (2005), 141–174.
- Jones, B. F., and B. A. Olken, "Hit or Miss? The Effect of Assassinations on Institutions and War," *American Economic Journal: Macroeconomics* 1:2 (2009), 55–87.
- Lei, Y.-H., and G. Michaels, "Do Giant Oilfield Discoveries Fuel Internal Armed Conflicts?" *Journal of Development Economics* 110 (2014), 139–157.
- Leite, C. A., and J. Weidmann, "Does Mother Nature Corrupt? Natural Resources, Corruption, and Economic Growth," IMF working paper 99/85 (1999).
- Marshall, M., K. Jagers, and T. R. Gurr, "Polity IV Project (College Park: Center for International Development and Conflict Management, University of Maryland, 2002).
- Nickell, S., "Biases in Dynamic Models with Fixed Effects," *Econometrica: Journal of the Econometric Society* (1981), 1417–1449.
- Osborne, M. J., and A. Slivinski, "A Model of Political Competition with Citizen-Candidates," *Quarterly Journal of Economics* 111 (1996), 65–96.
- Persson, T., and G. Tabellini, "Democracy and Development: The Devil in the Details," in *American Economic Review, Papers and Proceedings* 96 (2006), 319–324.
- "Democratic Capital: The Nexus of Political and Economic Change," *American Economic Journal: Macroeconomics* 1 (2009), 88–126.
- Rigobon, R., and T. M. Stoker, "Estimation with Censored Regressors: Basic Issues," *International Economic Review* 48 (2007), 1441–1467.
- "Bias from Censored Regressors," *Journal of Business and Economic Statistics* 27 (2009), 340–353.
- Rogoff, K., "Equilibrium Political Budget Cycles," *American Economic Review* 80 (1990), 21–36.
- Roodman, D., "A Note on the Theme of Too Many Instruments," *Oxford Bulletin of Economics and Statistics* 71 (2009a), 135–158.
- "How to Do xtabond2: An Introduction to Difference and System GMM in Stata," *Stata Journal* 9 (2009b), 86–136.
- Ross, M. L., "Does Oil Hinder Democracy?" *World Politics* 53 (2001a), 325–361.
- *Timber Booms and Institutional Breakdown in Southeast Asia* (Cambridge: Cambridge University Press, 2001b).
- "Oil and Democracy Revisited," mimeograph, University of California, Los Angeles (2009).
- Sachs, J. D., and A. M. Warner, "The Curse of Natural Resources," *European Economic Review* 45 (2001), 827–838.
- Sala-i Martin, X., and A. Subramanian, "Addressing the Natural Resource Curse: An Illustration from Nigeria," NBER technical report (2003).
- Sokoloff, K. L., and S. L. Engerman, "History Lessons: Institutions, Factors Endowments, and Paths of Development in the New World," *Journal of Economic Perspectives* 14 (2000), 217–232.
- Tavares, J., "Does Foreign Aid Corrupt?" *Economics Letters* 79 (2003), 99–106.
- Tornell, A., and P. R. Lane, "Are Windfalls a Curse? A Non-Representative Agent Model of the Current Account," *Journal of International Economics* 44 (1998), 83–112.
- Torvik, R., "Natural Resources, Rent Seeking and Welfare," *Journal of Development Economics* 67 (2002), 455–470.
- Tsui, K. K., "Resource Curse, Political Entry, and Deadweight Costs," *Economics and Politics* 22 (2010), 471–497.
- "More Oil, Less Democracy: Evidence from Worldwide Crude Oil Discoveries," *Economic Journal* 121 (2011), 89–115.
- Ulfelder, J., "Natural-Resource Wealth and the Survival of Autocracy," *Comparative Political Studies* 40 (2007), 995–1018.
- Ulfelder, J., and M. Lustik, "Modelling Transitions to and from Democracy," *Democratization* 14 (2007), 351–387.
- Wacziarg, R., "The First Law of Petropolitics," *Economica* 79 (2012), 641–657.