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Rentierism and the Natural Resource Curse: A Contextual Analysis of Nigeria

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Abstract

Over the years, the view that a negative correlation exists between natural resource endowment and development outcomes in resource-abundant developing countries has become something of an article of faith in development literature with the causal link said to run from resource abundance to negative development outcomes. Also, from the myriad of contending theoretical assumptions, rentierism has since emerged as the dominant theoretical postulate for the explication of the contradiction between resource endowment and development. Consequently, the focus of discussion has since shifted to the domain of prescribing appropriate policy tools to mitigate the consequences of this paradox. This paper takes as its point of departure the minority view that the context of natural resource discovery matters and actually shapes, to a high degree, the development trajectories of such states. It interrogates the explanatory utility of rentierism as the central organising concept for the explication of the phenomenon using Nigeria as its focus of analysis. The study employed qualitative descriptive analysis and identifies the colonial context of oil discovery in Nigeria as the paramount contextual variable that accounts for the contradiction between resource endowment and development in the country. It further argues that the failure of the Nigerian state to adopt measures that would change oil abundance from a liability to an asset is a consequence of the capture of Nigeria's oil industry by powerful external forces.

Keywords

Resource Abundance, Resource Curse, Development, Rentierism, Capture Effect

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1. Introduction

One issue around which a scholarly consensus appears to exist currently in development literature is that natural resource endowment is bad for development. The abundance of natural resources, or at least an abundance of a particular natural resource such as crude oil and gas, is said to be associated with such pathologies as poor economic performance, political authoritarianism, and even civil war. Wright and Czelusta (2003:1) had noted that the concern over the efficacy of resource-based development is centuries old but that the recent cycle began with Sachs and Warner (1995, 1997) who 'presented evidence of an inverse statistical relationship between natural resource based exports and growth rates during the period 1970-1990'. Auty (1993) had earlier invented the term 'resource curse' to describe this counter-intuitive phenomenon.

Following from this puzzle, a myriad of political explanations has since emerged in attempts to explicate the phenomenon. By far the most prominent explanation is the rentier effect (rentierism). In effect, rentierism has come to be accepted as a general theory for explaining why natural resources harm development of the endowed states. With reference to Nigeria, it has become some sort of received wisdom for explaining the contradiction between her enormous resource endowment and her monstrous

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developmental challenges.

In spite of its wide acceptability though, the theory has been challenged on the grounds that, first, natural resources are not a curse in terms of inevitability, and second that the theory of the rentier state cannot pass as a one-size-fits-all explanation for why natural resources appear to be detrimental to development. Such scholars argue that a proper explanation of the phenomenon would have to take into account the country-specific context of the endowed country; that further context-sensitive discussions are required for a proper understanding of the complex relationship between resource endowment and development.

Against the backdrop of this raging debate in extant literature therefore, this study interrogates the explanatory utility of rentierism as the central organising concept for the explanation of the apparent contradiction between resource endowment and development. It also attempts to denude the specific contextual variables that account for the inability of successive administrations in Nigeria to adopt appropriate measures that could change resource abundance from a liability to an asset.

2. The Problematique

Since Sachs and Warner's 1995 'evidence', it has become an article of faith in development literature that a negative correlation, in fact a causal link, exists between natural resource endowment and development outcomes in resource-abundant developing countries. The causality is generally believed to flow from resource endowment (abundance) to negative development outcomes. In sum, the natural resource curse thesis contends that natural resources generate a 'paradox of plenty because they create dependence and damage other tradable sectors and sources of economic growth and development such as human capital and the manufacturing sector'(Basedau 2005:10), stimulate unwise economic policies such as import substitution policy which prevent efficient and effective investments of rents and make the economy vulnerable to external shocks caused by declining terms of trade as natural resources exhibit lower income elasticities of demand than manufactured products (Olarinmoye 2008:23). It is also said to be bad for democracy either through strengthening authoritarian governments or by weakening democracies (Ross 2001: 5), and that their exploitation can lead to civil wars by making central governments weaker (Olarinmoye 2008:23).

The thesis has been challenged by a handful of scholars who point to examples of countries like Norway, Indonesia, Botswana, and even the United States of America and argue that resource abundance cannot be a curse in the form of inevitability (See for instance Wright and Czelusta 2003, Herb 2005, Rosser 2006, Alexeev and Conrad 2005, Rosser 2006, Ngwu 2006, and Cramsey, 2008 among others). And that whether or not natural resources are detrimental to a country's socio-economic and political development depends on a number of contextual variables, divided into country-specific conditions and resource-specific conditions (See Tsui 2005, Basedau 2005, Moreen 2007, Meissner 2010, Frankel, 2010 among others). Despite such challenges and clarifications, however, the dominant view among development economists, political economists, and political scientists is that oil impedes development (Schubert 2006:3).

Following the wide acceptance of the notion of a resource curse, a plethora of theoretical explanations has been adduced in attempts to explicate this phenomenon. The explanations encompass both the economic and the political. Many scholars however contend that the economic factors have been adequately studied and that attention should be focused primarily on the political causalities (See for instance Ross 2001 and Soros 2006 among others).

The state-centered explanation embodies a number of theories but the theory of the rentier state clearly stands out. The core argument of rentierism is that when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are freed from the need to levy domestic taxes and as a result become less accountable to the societies they govern (See Collier 2003:1, Shlaes 2005:1, Sala-i-Martin and Subramarian 2003:5-6, and Ross 2001:8-9). That as the state becomes deeply involved in the economy the ruling elite can spend the rents for their own privileges, for reinforcing their own position of power and access to the rents, and for shortsighted public expenditure. As a result, state institutions are weakened and the rents are not utilized to guarantee long-term, sustainable socio-economic development (Beck 2007: 46). With respect to Nigeria, rentierism has since gained general acceptability and is freely employed for the explanation of most of Nigeria's development challenges (see for instance, Ifesinachi 2007, Anichie 2010, Asobie 2010, and Soludo 2010).

Regardless of its wide acceptance, rentierism as a general theory of the resource curse has been criticized on a number of grounds. The first is that it is applied only to states identified ex ante as rentier states, leaving little variation on an independent or dependent variable. And the second is that to achieve their desired level of generality, the rentier state theorists often leave their variables loosely defined, resulting in a classic case of Sartori's 'conceptual over-stretch'. That is, a theory with an impressive level of generality but a disappointing level of validity (Ross 2001: 10-11).

Extant literature on the resource curse phenomenon in

Nigeria has clearly failed to acknowledge these weaknesses let alone address them. Consequently, the various analyses so far have fallen victim to the contextual insensitivity of rentierism. This therefore forms the intellectual void this study aims to fill.

3. A Theoretical Perspective

For the purpose of explication of the apparent contradiction between natural resource endowment and development, commonly referred to as the resource curse, this study adopts the theoretical prism of the Marxian Instrumentalist Decision Making Model which focuses on how the capitalist class uses the state as an instrument to achieve its collective will. The model begins with the assumption that it is the basic function of the state, any state, but especially the state in a capitalist society, to foster capitalist accumulation and profit. This is in contradistinction to the inexplicit assumption in conventional literature that the state is a 'neutral power broker' in relation to the interests of capital and labour (Asobie in Olusanya and Akindele 1990: 17-19).

Its central argument is that the state serves the interest of the capitalist class – that is, of the ruling class in capitalist society – because of the direct participation of members of the ruling class in the state apparatus. It therefore, pays a lot of attention to the identification of the connections between members of the capitalist class and the key actors in the decision – making institutions in government. This model offers a detailed description of the capitalist class, the channels of its control over governmental institutions and how it promotes its class interest through its direct participation. The aim is to demonstrate that state policy, including policy on resource control and management of resource wealth, is formulated and influenced directly by the "powers that be.

The two names most commonly associated with this model are Raph Miliband and G. William Domhoff (1967).Both have tried to isolate the processes by which the capitalist class uses the state as an instrument to promote and protect its class interest. Domhoff has distinguished four of these processes. They are: the candidate selection process; the special interest process; the ideological legitimization process; and the policy-planning process (McGowan and Walker 1981: 353).

In applying the Marxian Instrumentalist Decision-making model, it is germane to recall the timing of oil discovery in Nigeria and the political context within which the discovery was made. This study contends that the Nigerian state that emerged at independence was programmed first and foremost to serve the interest of the capitalist class. It contends further that the indigenous capitalist class being still at an inchoate stage at independence, the dominant capitalist interest that was to be served was that of foreign capital, particularly British capital. There is therefore no doubt that the incorporation of British Petroleum into the Nigerian oil industry in those early stages was designed to further those interests.

In order to consolidate the protection of those interests, the next logical step of the departing colonial administration was to configure the politics of the immediate post-independence era to ensure that it conduced to the protection of those interests. In line with our theory, this entailed the implementation of the candidate selection process mechanism which involves the recruitment of preferred middle class and upper class persons into the political leadership of the country. And in order to sustain this relationship and keep the compradors in tow, the ideological legitimization mechanism was unleashed. The process involves the creation, dissemination, and enforcement of certain values. These include values, which assert that a particular development part is the best of all possible strategies available. It also involved the spreading of the myth that only the Multinational Oil Corporations possessed the capital, technology, and expertise to extract the oil resources. This myth effectively foreclosed the possibility of the Nigerian state aspiring to assume the control of its oil industry, and created the secondary but no less damaging myth that the oil industry is 'enclaved' and as such does not have developmental value. Following from this myth, the Nigerian state became satisfied with the status of ownership without control.

4. Rentierism and the Natural Resource Paradox

The theory of the rentier state is said to be a complex of associated ideas concerning the patterns of development and the nature of states in economies dominated by external rent, particularly oil rent. As is very well known, the concept of the *"''Rentier state"* was postulated by Hossein Mahdavy with respect to pre-revolutionary Pahlavi Iran in 1970; the idea was first appropriated by a community of Middle East specialists in their discussion of the Arab world, and subsequently came to be applied in the analysis of oil-rich states generally. In its broadest sense the theory defines rentier states as those *countries that receive on a regular basis substantial amounts of external economic rent* (see Yates 1996:11).

Beblawi delineates four characteristics which must be present in order for a state to be classified as rentier:

- First, the rentier economy - of which the state is a subset - must be one where rent situations predominate.
- Second, the *origin of this rent must be external* to the economy. In other words, the rent must come from foreign sources. According to this formulation, domestic rent, even if it were substantial enough to predominate, is not sufficient to characterize the rentier economy.
- Third, in a rentier state *only the few are engaged in the generation of rent,* while the majority is involved in its distribution and consumption. Therefore an open economy with high levels of foreign trade is not rentier, even if it depends predominantly on rent (e.g., tourism), because the majority of the society is actively involved in the creation of wealth.
- Finally, the *government must be the principal recipient of the external rent* in the economy.

Herb (2002: 4) clarified that it is the third point that makes the use of the term "rent" appropriate, and in some ways bear resemblance to the usage of the term in classical political economy: rents are not generated by human activity, but instead by the scarcity value of natural endowments.

Expounding further, Herb (2002: 5) stated that the causal mechanisms underlying the theory are of three sorts. The first concerns how the state collects revenue, that is, that the absence of taxation releases the state from the accountability ordinarily exacted by domestic appropriation of surplus and makes it virtually completely autonomous from its society, winning popular acquiescence through distribution rather than support through taxation and representation.

The second causal mechanism concerns how the state spends revenues: rentierism, it is argued, increases the capacity of the state to both buy off, and to repress, opposition. These two mechanisms together are thought to produce "a rentier social contract" in which "the state provides goods and services to society … while society provides state officials with a degree of autonomy in decision-making (Wiktorowicz 1999: 608).

The third set of arguments in the literature holds that rentier wealth distorts social structure, preventing changes that promote democracy when countries follow a more standard development trajectory. According to Herb, while the first two mechanisms are state-centred, the third focuses on how rents affect society, and thus is more about natural resource dependence than rentierism specifically (Herb 2002: 5-6).

In classical economic theory, rent was understood as any surplus left over after all the costs of production had been met, and was paid to the owner of the land for use of its natural resources. It was in this light that Thomas Malthus described rent as "that portion of the value of the whole produce which remains to the owner of the land" and "the sole fund which is capable of supporting the taxes of the state." In neoclassical economic theory however, economic rent is considered one of the four primary factor incomes of the general equilibrium - along with wages, interest, and profit (Yates 1996: 16). Yates noted following Chevalier (1976) that in petroleum economics, the rent-or "oil surplus is defined as the difference between the price of a given quantity of oil sold to consumers in the form of petroleum products" and the total average cost incurred in discovering, producing, transporting, refining and marketing this crude. This, he pointed out, unfortunately blurs the distinction between rent, royalty, and profit in a way that classical Ricardian theory had not (Yates 1996: 17).

Mahdavy had justified this on the ground that "however one looks at them the oil revenues received by the governments of the oil exporting countries have very little to do with the production processes of their domestic economies. Input from local industries, including wages and salaries, payment to local contractors and purchase of local supplies is "so insignificant that for all practical purposes one can consider the oil revenues as a free gift of nature". According to him, domestic consumption is also severely limited by the export promotion of crude. That is, since most of the oil is produced for export, little of it is left behind for local consumers. As a result, the petroleum industries in the oil-rentier states tend to be enclave industries that generate few backward or forward linkages (backward linkages are the purchase of local inputs, and forward linkages are the domestic use of the sectoral output in further productive operations) (Yates 1996: 23).

In effect, the rentier theory inherited from the classical economists the distinction between 'earned' and 'unearned' income. According to the theorists, by treating rent as an economic category, economic theory can tell us little about the rentier 'for the rentier is a social agent who does not actively participate in the production process yet still shares in the fruits of the product.' They argue that rent is a factor income unlike the other traditional costs of production; Wages are paid for labor, interest for capital employed, and profits for the successful management of risk. For each of these factor incomes some element of sacrifice and effort is involved. But the rentier is a member of a social group that is devoid of such value added. The purest rentier, therefore, is but a parasite feeding on the productive activities of others; only nature is sacrificed (Yates, 1996: 17).

The choice of the concept of the rentier economy is premised on the assumption that such economy creates a specific mentality. Maldavy lamented this fact when he contrasted the somewhat lackluster attitude prevalent among the rentier states with the sense of alarm and urgency prevalent in most other underdeveloped countries to the massive impoverishment of the general populace, and to their conditions of economic and technological backwardness. According to him,

"whereas in most underdeveloped countries, this kind of relative regression will normally lead to public alarm and some kind of political explosion aimed at changing the status quo…in a rentier state, the welfare and prosperity imported from abroad pre-empts some of the urgency for change and rapid growth and may in fact coincide with socio-political stagnation and inertia" (Yates 1996:21).

He then identified two components to the inertia. The first is that the existence of relatively ample resources deludes the rentier into an expectation of ever-increasing revenues in the future. The second is that the elites become satisfied with their material conditions, and 'instead of attending to the task of expediting the basic socio-economic transformations, they devote the greater part of their resources to jealously guiding the status quo.' Insulated by the surrounding comforts that external rents provide, rentier elites have a proclivity to form a complacent disposition and to lack the necessity that is the mother of invention. Beblawi argues that the break in the work-reward linkage means that, for the rentier "reward becomes a windfall gain, an isolated fact." Income and wealth are seen as situational or accidental, rather than as the end result of a long process of systematic and organized production (Yates 1996:21).

According to this position, the structural problems intrinsic to the input-output imbalance of the rentier economy are mirrored in the class structures and political rules of the game in the rentier state. Politically speaking, the structure of public finance in an oil-rentier state tends to concentrate economic wealth – and in the process political power – in the hands of the few. Mahdavy suggests that since oil rents are paid directly to the government, "the temptations for a government bureaucracy to turn into a rentier class with its own independent source of income are considerable. And the creation of a rentier class is conditioned by the state's capacity to support itself financially through external rents and socially reproduce its authority over society (Yates 1996: 32-33). Conversely, even in the face of 'blatant mal-distribution of income and wealth, the emergence of some form of class-based politics to redress the iniquity of material conditions is impossible because the economic conditions and sectoral imbalances of the rentier state discourage class formation in the usual sense of the term.

In furtherance of the rentier argument, Humphreys, Sachs and Stiglitz (2007: 4) stated that to understand the natural resource paradox, we need first a sense of what makes natural resource wealth different from other types of wealth. According to them, two key differences stand out. The first is that unlike other sources of wealth it does not need to be produced. It simply needs to be extracted. They argue that since it is not a result of the productive process, the generation of natural resource wealth can occur quite independently of other economic processes that take place in a country. It is therefore said to be in a number of ways 'enclaved'in the sense that it can take place without major linkages to other industrial sectors and it can occur without the participation of large segments of the domestic labour force. Natural resource extraction can thus also take place quite independently of other political processes since a government can often access natural resource wealth regardless of whether it commands the cooperation of its citizens or effectively controls the institutions of state (Humphreys, Sachs and Stiglitz 2007: 4).

The second major feature, according to them, stems from the fact that many natural resources - oil and gas in particular – are non-renewable. From an economic aspect, therefore, they are less like a source of income and more like an asset. These two features – the detachment of the oil sector from domestic political and economic processes and the non-renewable nature of natural resources, the argument goes, give rise to a large array of economic and political processes that produce adverse effects on an economy. One of the greatest risks, according to them, concerns the emergence of what political scientists call 'rent-seeking behaviour' (Humphreys, Sachs and Stiglitz, 2007: 4).

One way rentier governments have attempted to deal with this has been to encourage closer integration of foreign operations with businesses in the domestic economy. They often require progressive increases in the local value-added content either within the foreign affiliate or through subcontracting to local firms. Indigenization of personnel is another avenue taken to increase local participation. It is in this regard that the Nigerian government recently enacted the Nigerian Content Act which aspires rather lamely after over half a century of oil exploitation, towards:

'putting in place a framework for continuous growth of Nigerian Content in the Nigerian Economy through a balanced programme of planning, target setting, monitoring, stimulating employment, improving contractor capability and capacity, while ensuring international competitiveness of the materials, equipments and services provided by Nigerian companies.

Yates had however observed that the general paucity of inter-industry linkages between the oil sector and the local economy prevent oil from becoming a leading sector in the usual way associated with certain industries in the Western industrialized economies (Yates 1996: 24).

5. Discussions

a. The contradiction between resource ownership and control

From the foregoing exposition, it is obvious that the theory of the rentier state is truly ‘a complex of associated ideas’. As with all such ideas, which are usually ideologically constructed, it tends to confound and obfuscate rather than explicate and illuminate. If we take as our point of departure the commonly accepted definition of a rentier state as ‘those countries that receive on a regular basis substantial amounts of external economic rent’, bearing in mind especially Beblawi’s characterization that ‘the origin of this rent must be external to the economy’, the primary question that immediately assails the mind is how did the proceeds from the crude oil extracted from Nigeria’s Niger Delta basins come to be classified as being of external source, or being external to the Nigerian economy?

The simple explanation for this can be found in the structure of ownership and control of the oil resources. Even though the ownership of all land (including the sub-soil) within the territorial entity called Nigeria is vested in the Federal Government of Nigeria, the control of the resources therein have been firmly entrusted to the Oil Majors since the inception of oil exploration in Nigeria. These companies in turn pay ‘rents’ to the government. The companies being foreign-owned, the ‘rents’ so paid are classified as being of external source, and Nigeria a rentier state. Rentier states are, therefore, generally guilty by definition.

The basic flaw with this classification of rent is that it focuses entirely on the source of the rent with scant attention paid to its character. In rebuttal of Ricardo’s theory of rent, Karl Marx had described rent as a social relation, reflective and derivative of historically specific property relations in the dominant mode of production. Similarly, Cyrus Bina had employed ‘this Marxian notion of historical specificity to demonstrate that oil rent is a category of property relations unique to the capitalist mode of production ...which fragmented ownership of the land from the ownership of the subsurface reservoirs. According to him, the "law of capture" that operated in the United States, for example, made it possible for a legion of oil producers to acquire lease holding rights to the surface terrain of a subsoil petroleum deposit (Yates 1996: 19).

Similarly, the law of capture operating in Nigeria had, right from inception, effectively divorced ownership of oil from its control, preventing oil from becoming the driver of development. In the case of the United States though, in spite of the capture of the oil industry by the big corporations, the alienation of rent from the other factor incomes – wages, profit, and interest, and the massive repatriation of the latter did not occur since the oil companies were American-owned. The country therefore escaped both the tag of a rentier state and the pathologies occasioned by the divorce of ownership from control.

b. Enclavization of Nigeria’s oil industry and the problem of Alienation

A secondary question that flows from this primary question is how come that all that the Nigerian state gets is rent, with no mention made of profits, considering that we had variously entered into different forms of contractual agreements with the oil companies (Production Sharing Contract, Joint Venture, etc) which would have at least entitled us to some profit? Concerning this secondary question, suffice it to say that Yates had noted that petroleum economics had the unfortunate effect of blurring the distinction between rent, royalty, and profit in a way that classical Ricardian theory had not (Yates 1996: 17). Ironically, it is this lumping together of the various revenue streams that provides the justification for the labeling of the countries concerned as rentier states, since such ‘rent’ becomes substantial as a percentage of national income. And there is a sense in which it could be argued that considering the moral disdain reserved for the rentier by Locke as by liberal economists such as Smith and Ricardo, this labelling provides a moral justification for the mindless plunder of the resources of the ‘rentier states’ in the same way that the notion of the ‘civilizing mission’ or “the manifest destiny” provided the moral impetus for the subjugation and plunder of African territories during earlier penetration of Africa by the forces of imperialism. In addition, rentierism by heaping the blame for the numerous woes that confront the resource-abundant states on their rentier status effectively masks the production relations that underpin the extractive industry in such states, which in the case of Nigeria was entered into by the colonial state.

Concerning the two central arguments of rentierism: that the oil industry is in a number of ways ‘enclaved’; and that a rentier economy creates a specific mentality that does not conduce to development – a ‘rent-seeking behaviour’, the point has to be made that an understanding of the ‘enclavization’ of Nigeria’s oil industry must proceed from an appreciation of the enclave nature of the Nigerian economy generally. Explaining the enclave nature of the Nigerian economy, Eleazu (2005:34) had stated that the modern economy of Nigeria developed as an appendage of the world-wide British imperialist commercial interests. During the colonial period, Nigeria was exploited to supply fuel and lubricating oil to British industries while providing a consumer market for the products of the same British industries. While that situation lasted, it was not in the interest of the colonial rulers to promote industries in the colonies that would arise to compete with those of Britain.

The alienation of the Nigerian oil industry from other sectors is therefore a deliberate creation of the British colonial administration in pursuit of specific British economic interests. Having isolated oil extraction from other industrial sectors, or having stultified the development of an allied industrial sector around oil, which is another way of saying the same thing, the myth was hoisted that in order to develop, Nigeria must follow the 'usual development process' which involves a progression from agriculture to industry to services. Oil was therefore cleverly left out of the development calculus. The wholesale acceptance of this myth resulted in the numerous futile attempts by successive administrations in Nigeria to industrialize along areas of severe comparative disadvantage. The failed experimentation with import-substitution-industrialization (ISI) and export-promotion-industrialization in the 1970s and 1980s is a clear pointer to this aberration. One consequence of these misdirected attempts is that the citizenry are effectively denied the opportunity to learn by doing in the area of oil, which is our area of near absolute advantage in comparison with the industrialized countries.

Similarly, the alienation of the domestic labour force from the extractive/productive process has far-reaching consequences for the political economy of Nigeria. First, it frustrated the emergence of a wage-earning and, therefore, tax-paying economic cum political middle class that can muster the resources and the organizational skills to call the country's political leaders to account, and if need be mobilize the people into action. It is common knowledge that all through history, the middle class have been the driving force of many revolutions (both in the right and in the left of the ideological divide) and the consequent institutionalization of a responsive and accountable political leadership. Second, the alienation of the country's labour force from the extractive process enabled the massive repatriation of, wages, interests and profits from Nigerian economy leaving the elite and the masses alike to scramble for the rents which are in most cases determined by the extractive companies as the NEITI audit (2004 and 2005) have clearly shown. It is this alienation of the state and the citizens from the natural productive base, and the alienation of rent from its more sophomoric setting, rather than 'the welfare and prosperity imported from abroad' that create the socio-political stagnation and inertia which result in the 'lack of the necessity that is the mother of invention' as Maldavy had argued.

Our simple argument is that the disconnect of the Nigerian oil industry from other industrial sectors as well as other economic and political processes in Nigeria is due, first and foremost, to the firm control of the industry by foreign-owned Multinational oil companies with the active connivance of their home governments. It is a well-known fact that a major European interest during colonial expedition in Africa was the sourcing of raw materials for their home industries. Given the centrality of oil to the very survival of the industrial and post-industrial societies, that interest was reinforced with the discovery of oil. Oil exploitation in Nigeria by the MNOCs was therefore geared essentially towards export. That being the case, even the domestic refining of petroleum products has been subtly discouraged or even out-rightly sabotaged.

A study conducted in 1980 by Michael Tanzer, showed that the failure of oil to stimulate the development of the knowledge industry in many developing countries is the function of a number of myths that have been woven around the industry over the years – myths which, being highly profitable to the international oil corporations, are perpetuated by them and by some international agencies in order to deter governments of underdeveloped countries from entering the oil industry, and exploration in particular. In sum, these myths are that only the big international oil companies possess the technology and capital necessary to carry out oil exploration and development and, therefore, can afford to risk failure (Michael Tanzer in Nore and Turner 1980:90-91). Tanzer then went on to debunk these myths thus.

As to myth number one, that only the big oil companies control vital exploration technology, Tanzer explained that the facts are that in today's world, most oil-exploration efforts, both onshore and offshore, are not carried out by the big international oil companies, like Mobil or Exxon, but by smaller specialized drilling firms which sell their services to anyone, usually for a flat fee and not for a share of the profits. While it is true that in developing countries these drilling firms work to a large extent for the big oil companies, this is so because the governments of these underdeveloped countries usually leave the control of exploration to the oil companies under the production-sharing arrangements. What is more relevant, however, is that any government which is willing to pay the going market rate for these drilling operations can obtain them without recourse to the big oil companies, and without giving up a share of production or profit. This point was corroborated by E.B. Odunlami at a capacity enhancement training workshop for civil society organizations on Nigerian Extractive Industry in Lagos in February 2007 when he explained that the Multinational Oil Corporations do not own drilling rigs; instead they lease them at a cost of about $600,000 a piece per day from the oil servicing companies. He explained further that the services of these oil servicing companies are available for hire to whosoever has need for their services.

As to myth number two, that only the big oil companies have the capital necessary for exploration and development, Tanzer explained that this falsehood exists because of a failure to recognize that while very large amounts of capital are required for funding and developing an oil field, only a small part of these funds (perhaps 5% or less) is needed for the truly risky function of exploration. The great bulk of the capital required is for development of an oil field once found, and this is not a risky job. Moreover, given the great value of oil in the world today, oil in the ground is an extremely bankable asset, and the necessary development capital can easily be raised by loans, on quite favourable terms.

As for myth number three, that only the international oil companies can afford the risk of oil exploration, this falsehood exists because of excessive concentration on the cost of exploration, with little attention being paid to the benefits. Whether or not a risk is worthwhile or affordable depends not only on the costs but also on the possible benefits, and what resources can be diverted from other uses to take the gamble.

Having debunked these myths, Tanzer identified a critical factor why most underdeveloped oil-rich countries have not been able to overcome their dependence on the Multinational Oil Corporations for the exploitation of the oil resources even where such countries have penetrated these myths. According to him, that reason is the historically very strong opposition of the international oil companies backed by their powerful home governments, and international lending agencies like the International Monetary Fund and the World Bank, to state companies entering into the oil companies' highly profitable business (Michael Tanzer in Nore and Turner 1980:90-91).

To buttress this point, in 1951 Iran nationalized its oil industry, then controlled by the Anglo-Iranian Oil Company (now BP), and Iranian oil was subjected to an international embargo. In an effort to bring Iranian oil production back to international markets, the U.S. State Department suggested the creation of a "Consortium" of major oil companies. The "Consortium for Iran" was subsequently formed by the following companies: *Anglo-Persian Oil Company* (United Kingdom); *Gulf Oil* (United States); *Royal Dutch Shell* (Netherlands/United Kingdom); *Standard Oil of California ("Socal")* (United States); *Standard Oil of New Jersey (Esso)* (United States); *Standard Oil Co. of New York ("Socony")* (United States); and *Texaco* (United States). This consortium was famously referred to as the 'the Seven Sisters' by an Italian Parliamentarian at the time, Enrico Mattei(Wikipedia Accessed 10/10/10). Meanwhile, its formation was preceded by a CIA-backed coup which overthrew the government of Iran in 1953 (See Gasiorowski 1987, cited in Humphrys, Sachs, and Stiglitz 2007:14).

c. The Context of oil discovery and Nigeria's development trajectories

From the foregoing therefore, it is not unreasonable to deduce that it is production relations underlying oil extraction that accounts for the contradiction between natural resource endowment and development in majority of the underdeveloped resource-rich states. The theory of rentier state merely addresses the inequitable relations at the distributive level of the resource chain and attributes it to 'an oil mentality'. Such inequitable relations inhere in the nature of the capitalist mode of production rather than that of natural resources. This is why it is said that the basic function of the state, especially in a capitalist society, is to foster capitalist accumulation and profit. The rentier state theory however talks of the state as if it were a 'neutral power broker' in relation to the interests of capital and labour, or worse still, of the capitalists and the masses in resource endowed states.

Empirically, there are four sets of countries that are known to have been able to avoid or overcome the resource curse. The first, represented by the United States, are countries that are home to the Multinational Oil Companies. As discussed earlier with respect to the US, the 'law of capture' occurred quite alright but because the captor-companies are American-owned, the massive repatriation of oil wealth from the domestic economy, which is the bane of Nigeria and other resource-rich developing countries, had not occurred. Instead rents, wages, profits, and interests interacted to stimulate growth and produce desirable economic outcome. This made possible the development of petroleum as a knowledge industry, evolving institutional relationships among government agencies, academic institutions, and private corporations. It also permitted the emergence of national economic strength from a resource base, and resulted in 'a classic case of a nation building comparative advantage around its resource base' (Wright and Czelusta 2003: 13).

In the case of Norway where oil was discovered in commercial quantity only in 1969, negotiations with international oil companies, right from the start emphasized the transfer of competence and control of the oil industry to Norway. With the establishment of a state-owned company (Statoil) in 1973, and investment in the training of petroleum engineers at the Norwegian Technical University and Rogaland Regional College, "recipient competence" was transformed into "participant competence", making it possible to speak of an independent Norwegian oil industry (Anderson, 1993:98-100). Overtime, the Norwegian oil industry became expert at producing deepwater drilling platforms, which were initially designed to overcome immediate production bottlenecks, but later became export goods, as they proved useful for offshore drilling in other parts of the world. Also, a distinctive approach to exploration developed at the University of Oslo's Department of Geology. Focusing on the properties of different types of sandstones as reservoir rock, and the flow of water and oil sediment basins, has come to be known as the "Norwegian School of thought" regarding oil exploration (Wright and Czelusta 2003: 14).

Indonesia is one of the few resource-rich developing countries that have overcome the so-called resource curse. The country has long been rich in natural resource, most notably oil and gas. As several scholars have pointed out, it is a clear example of a "rentier state" (Tanzer 1990; Isham et al 2002 Rosser, 2004: 2). Despite its natural resource wealth, Indonesia performed extremely well in economic terms in the three decades prior to the onset of the Asian economic crisis in 1997. In 1965, the country was widely regarded as an economic "basket case" but by the early 1990s it had been labelled by the World Bank as an East Asian "miracle" economy (Rosser 2004: 1).

A number of explanations have been offered for Indonesia's success in overcoming the resource curse. These include the Economic policy-focused arguments, a Political elite-centred argument, and the Historico-institutionalist arguments. Rosser however explained that the problem with these arguments is that they provide at best only a partial explanation of Indonesia's economic success. He conceded that of the three approaches, the historico-institutionalist approaches provide the most persuasive and comprehensive account of Indonesia's success in overcoming the resource curse. He however argued that Indonesia's success in overcoming the resource curse stemmed, not just from the policies and institutional arrangements that characterised the New Order's rule, but also from the political and social conditions that made these possible.

In addition, the internal developments in Indonesia intersected with developments in her external circumstances that opened up a range of economic opportunities for the country over the next three decades. These included the intensification of the Cold war between the US and its allies on the one hand and the Soviet Union on the other, and its extension, in geographic terms, to Southeast Asia and the geo-economic interests of Japan and the East Asian Newly Industrialized countries (NICs). In the late 1960s, the Japanese government removed controls on the export of capital, precipitating a large wave of foreign investment into East Asia, a significant chunk of which went into Indonesia's natural resource sectors. Also, another wave of Japanese investment flowed into Indonesia following the signing of the Plaza Accord in 1985, as Japanese manufacturers sought cheaper bases from which to export to the US.

Rosser (2004: 11) clarified that the internal and external developments earlier examined created a political climate in which there were strong incentives for New Order policy-makers to manage the economy, particularly its new oil wealth, well. He explains that by the time the oil boom began in 1973, the New Order had already embarked on a capitalist programme of development involving integration into the global economic system, and, not withstanding its membership of the Non-Aligned Movement, effective alignment with the US and Western Europe in the Cold War struggle. The US on its part had embarked on a series of initiatives aimed at incorporating Southeast Asian countries within its sphere of influence. These involved creating loyal, capitalistically prosperous, authoritarian anti-communist regimes typically, but not invariably, dominated by the military. The economic benefits of this situation for Indonesia included Western governments pumping in large sums of aid into the country through the Intergovernmental Group on Indonesia (IGGI); a donor forum established in 1966. It also included generous assistance from the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB) as well as policy advice. The cold war also opened up opportunities for the New Order in the agricultural sector (Rosser, 2004: 9-10).

Botswana is generally acknowledged as an African best practice example. In explaining the Botswana exceptionalism Laishley (1992: 20) stated that although Botswana's liberalized economy and its reputation of a stable democracy have allowed for a greater role by private foreign capital in both mining and manufacturing and helped attract foreign investment, these factors alone cannot explain the economic progress in Botswana as other factors played equally important roles. The first of these factors, according to him, is the high demand and prices for diamonds on the world market. The second is the commitment to development by the political and bureaucratic elite. The third is the efficient, politically neutral and stable bureaucracy that has meant proper utilization and allocation of resources. He also pointed to the quality of leadership and careful management of diamond revenues, which have greatly maximized Botswana's chances of economic development. Related to this is the skill and tact displayed by the Botswana elite in successfully negotiating with de Beers Diamond Company for 50-50 percent share ownership in Botswana diamond mines in 1975 instead of the previous 85-15 percent ownership.

Over and above the preceding explanations however, Acemoghu et al (2003) strongly contend that Botswana was able to grow rapidly after independence because a unique combination of political and historical factors made it possible for strong institutions and good policies to emerge in that country. More specifically they argued that the dominant political elements in the post-independence period – chiefs and cattle owners-developed an interest in the development of strong economic institutions because of their involvement in ranching and other economic activities during that time. But even more to the point is their contention that pre-colonial tribal institutions 'that encouraged broad-based participation and placed constraints on elites' survived the colonial period because Botswana was peripheral to the British Empire; so that when the country began to exploit its mineral wealth, it had already started to build democratic and efficient institutional structures and, consequently, its new mineral wealth "likely reinforced" these structures rather than serve to undermine it (See Rosser 2004:6).

This is obviously in sharp contrast to the Nigerian situation. Nigeria's colonial experience differed significantly from the Botswana experience in that, with her abundant human and material endowment, Nigeria was central to the British Imperial interest in Africa. And due especially to the timing of oil discovery, negotiations for oil exploitation were conducted between the British colonial administration and a conglomerate of Imperial oil companies Unlike Botswana, therefore, the post-independence politics in Nigeria was greatly coloured by British oil interest and the attendant institutional structures established at independence were geared towards the maintenance of the contractual agreements which were clearly skewed in favour of the oil companies rather than changing it. Due to the capture effect, the situation has persisted to date, For as Luong and Weinthal rightly noted, the strategic choices that a resource-rich state makes at this first stage undoubtedly set in motion their future political and economic developmental trajectories.

6. Conclusion

This study interrogated the explanatory utility of rentierism as the central organising concept for the explication of the apparent contradiction between resource endowment and development. It argued that it is not so much the dependence on rent, as espoused by the rentier state theory, as the estrangement of rent from the other factor incomes of the general equilibrium that accounts for the failure of oil to play a developmental role in Nigeria. The rentier state theory blurs the distinction between rent, wages, profit and interest and focuses entirely on rents and in so doing diverts attention away from the cheating game that characterizes the oil industry in Nigeria.

The study identified the timing of oil discovery as the paramount contextual variable that enabled the absolute capture of Nigeria's oil industry by foreign-owned multinational oil companies right from inception. It contended further that one debilitating effect of this capture is the 'enclavization' of the industry; a fact which the rentier state theorists blame on the nature of oil.

Finally, the study argues that the failure, or more appropriately, inability of the Nigerian state to adopt measures that would change oil abundance from a liability to an asset is not as a result of an 'oil mentality', again as rentierism would have us believe, but is a consequence of the capture of the decision making apparatus of the state by the oil companies with the active collaboration of their powerful home governments aided by the structure of the global financial system. This they do through the propagation of certain myths which are highly favourable to the companies vis-à-vis the resource-endowed states.

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