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RESEARCH ARTICLE

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Political Survival, Energy Policies, and Multinational Corporations

A Historical Study for Standard Oil of New Jersey in Colombia, Mexico, and Venezuela in the Twentieth Century

Marcelo Bucheli · Ruth V. Aguilera

Abstract:

- We draw on the selectorate theory and detailed historical research to explain how a government relationship with foreign multinationals will depend on the strategies followed by the host country's ruler to assure his/her political survival. Focusing in three oil-exporting countries (Colombia, Venezuela, and Mexico) and one firm (Standard Oil Company of New Jersey) during the twentieth century, we show that oil rents are a valuable resource for the host country's ruler to assure the loyalty of his/her winning coalition.
- We argue that a government depending on a small winning coalition will use oil rents as a private good to be distributed among those close to the ruler, while a government relying on large coalitions will use oil rents as public goods to be distributed among the population. When acting against foreign multinationals, the host government is constrained by the political power of the firms' home country over the host country and by the relationship between the firm and its home country. Finally, we show that shared political agendas between host and home governments give the host government more space to maneuver against foreign firms.

Keywords: Foreign direct investment · International political economy · Selectorate theory · Oil industry · Economic nationalism

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Introduction

Political conflicts around the oil industry in less developed countries are as old as the industry itself. Oil multinationals have confronted governments who claim that these foreign corporations are taking a disproportionately large share of the oil wealth, leaving very little to the local society. Sometimes, this debate has ended in the outright expropriation of the foreign multinationals' assets by the host government, as happened in Mexico in 1938 or in many poor or recently decolonized countries in the 1960s and 1970s (Yergin 1991). More recently the governments of Russia, Ecuador, Bolivia, and Venezuela have expanded government control of their energy resources in detriment of the multinationals operating there already, using again arguments of exploitation and national sovereignty. In other underdeveloped oil producing countries, however, the multinationals have a close and good relationship with the home governments, as is the case of several of the oil exporting countries in the Persian Gulf. By conducting a comparative historical study, this paper argues that the different actions followed by the governments of an oil producing country towards foreign oil multinationals are determined by strategies of political survival of the oil producing country's ruler. Similarly, we argue that the strategy followed by an oil multinational is closely linked to its role in the host country's ruler political survival. We believe that the recent dramatic fluctuations of oil prices, the aggressive entry of emerging economies as new large oil consumers, and the fact that several important producing countries are increasing state control in the oil sector makes the long-term analysis of the multinationals-oil producing governments' relationship particularly relevant.

This article examines two interrelated research questions: (1) How does the size and ideology of the ruling political coalition influence the government of an oil producing country incentives for expropriation or redistribution of the oil wealth? (2) How do the oil producing country's constitutional constraints and the relative bargaining power of the oil multinational and its home country government *vis-a-vis* the host country government influence the multinational's strategic response of the foreign investors? We answer these questions by studying the operations of a large American oil multinational, the Standard Oil of New Jersey (later known as Exxon, and now ExxonMobil, hereafter "Jersey") in Venezuela, Mexico, and Colombia during the twentieth-century.

Our argument can be divided in the following two hypotheses which we carry throughout the three cases we study: First, the decision by a government to redistribute the oil wealth among its citizens (through expropriation or higher taxation) is determined by the size of the political coalition that put (and kept) the ruler in power. Presidents that came to power through rigged elections (or no elections) are supported by a very small but powerful coalition. When this is the case, the president will not distribute the rents generated by the oil sector as a public good but as a private good. This means, the oil rents will be used to keep the small coalition (high ranking military or traditional elite members) loyal to the regime. Under these circumstances, the president has no incentives to extract too much from the foreign oil companies, but just enough to distribute among the members of his coalition. On the other side of the spectrum, a president who came to power through open and transparent elections is supported by a large political coalition (composed by those who voted for him). In this case, the president will use the oil income as a public

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good rather than as a private one. Voters will expect the ruler to improve their standard of living and will not re-elect the president if they perceive he is using the oil wealth as a private good to be distributed among his friends or relatives. Under these circumstances, the country's ruler will use the oil income as public good to invest in sectors like education, health, or infrastructure. If the foreign oil companies have a disproportionate share of the country's oil wealth, the ruler will increase the country's share through higher taxation or expropriation.

Second, the multinational's strategy varied according to the host government's constitutional constraints, its importance for the local economy, and the relations between the host government and the home government (in this case the United States). When confronting a government with few constitutional constraints, the multinational allied with other foreign companies to defend their interests as bloc. In countries with more constitutional constraints, the multinational defended its interests by allying itself with opposition parties and using domestic courts. The multinational's home government also acted as a third party by defending the company's interests. This support, however, was not unconditional but depended on broader geopolitical interests of the home country's government.

Our dependent variable is how ultimately the economic rents of Jersey in Colombia, Venezuela and Mexico were allocated in different points of time (which can range from expropriation to redistribution to complete private ownership). Our independent variables or factors influencing how Jersey rents were allocated are the characteristics of the host government which has two key dimensions (a) who elects the ruler also referred to as "selectorate;" (b) what the nature of those that maintain the ruler in power is also called "winning coalition." Our moderating variables are: (1) the relationship of the host country with the home country, i.e., the US; (2) characteristics of other existing oil firms (if any), i.e. competition. The historical events we examine are those directly affecting the size of the producing country's selectorate and winning coalition.

An accurate study of the political economy of the oil industry and the governance of its multinational corporations requires historical analysis. Politics are not stable and are always determined by events occurring decades before. As obvious as this statement might sound, this is particularly important in the oil industry because of its technical characteristics and the fact that most of the oil consumed in the developed world comes from underdeveloped countries. Throughout the twentieth century and the early twenty first century the main oil producing regions in the world have also been areas of political instability and, paradoxically, accompanied by high levels of poverty (Karl 1997; Ross 2001; Eifert et al. 2002). The politics of the producing countries add new uncertainties to an already very risky industry. Contrary to what happens in the service sector or even in the manufacturing industries, oil investments entail very long-term decisions. Roughly, the industry is divided in the following stages: Exploration, production, transportation, refining, and marketing. Before production in an oil field starts, companies need to invest significant amounts of resources and time just exploring the area to find out whether it has oil or not, the amount that can exist underground, and the quality of the oil. Once the company has determined the financial and technical feasibility of the operation, it has to invest heavily in creating the production infrastructure. Oil is usually located in isolated areas requiring the construction of transportation facilities for the oil itself (like pipelines), the workers, and equipment. Once the production and transportation facilities start functioning, interruptions are very costly. Moreover, due to the fact that oil and its derivates are highly flammable and explosive a very tight control is needed. Because of these intrinsic industry characteristics, the decision of whether to invest or not in oil production is always made with a long-term vision. Historically, the most successful companies in this sector have been those large companies that vertically integrated early on and which counted with enormous amounts of capital, like the case of Jersey (Penrose 1968; Wilkins 1974a). This is why our research design relies on the historical analysis of three cases as encouraged by prominent international business scholars (Jones and Khanna 2006).

The following explains our choice of company and countries. During the period we study Jersey was one of the five largest oil companies in the world and a very successful firm at vertically integrating its operations (Chandler 1990; Wilkins 1974a). Its production operations in Colombia, Venezuela, and Mexico were the company's most important ones outside the United States before World War II. The region accounted for 51% of the American oil investments abroad in 1929, 39% in 1936, and 38% in 1940 (US Senate 1946, pp. 180 ff.). Before 1920, there were years in which 40% of Jersey's profits were generated in Latin America (Philip 1982, p. 13). By 1924, Mexico produced 25% of the world's output, and Venezuela became the largest producer outside of the United States in the 1930s. In the first half of the twentieth-century, Colombia was the third largest Latin American producer, always ranked among the world's top ten oil producers, and accounted for the largest investment of Jersey outside the United States (Wilkins 1974b).

The Political Economy of Foreign Direct Investment in the Third World

Scholars have interpreted the conflicting relationship between oil multinationals and host governments in different ways. On one hand, business scholars made their analysis under the light of the "obsolescing bargaining power" theory, which claims that the larger the sunk costs a multinational has committed in the producing country, the less bargaining power it has with the local government because the government has more to expropriate (Wells 1971; Fagre and Wells 1982; Vernon 1971; Smith and Wells 1975). Kobrin (1980) added that a government might be inclined to expropriate also because the host country becomes more familiar with the way the industry operates and the technology becomes more available, so the country simply is not as dependent on the multinational any longer. Following this logic, Kobrin (1979, 1984) and Minor (1994) explain the wave of nationalizations in the 1960s and early1970s as a period in which the governments of less developed countries decided to take control of strategic sectors (especially oil), and the 1990s as a period in which the process had been completed.

On the other hand, scholars writing from a political scientist, historical, and sociological perspective interpreted the conflicts between host countries and multinational corporations in two ways. First, the Dependency scholars argued that multinationals were important instruments of economic imperialism to assure supply of cheap raw materials and markets for the production of industrial nations (Baran 1968; Castells 1973; Frank 1971; Cardoso and Faletto 1979). Second, Neo-Institutional scholars suggest that the characteristics of the host country's institutional framework will determine its relationship with foreign multinationals. North (1990) and Jensen (2003) argue that more democratic regimes provide better ground for multinationals because the existence of a system with checks and balances will lead to a better protection of the property rights. Jensen (2005) adds that host countries benefit from foreign direct investment (FDI) only if they have the appropriate kind of institutions in place. These arguments have been challenged by studies which claim that for multinational corporations operating in the extractive sector in a poor country, an authoritarian regime can be more beneficial because those regimes are easier to manipulate (Oneal 1994), and by scholars who argue that extractive multinationals do not promote democracy and can harm economic growth in poor countries (Alfaro 2003; Le Billion 2001; Ross 2004; Li and Mihalache 2006). Finally, Clague et al. (1996) claim that property rights can be secured in both, democracies and dictatorships, and that it is contingent on how stable the dictatorship is or how mature the democracy is.

Selectorate Theory and International Business

Our study contributes to the literature on the political economy of FDI by analyzing the conflicts over oil income between producing countries' governments and multinationals under the light of the *selectorate theory* developed by Bueno de Mesquita et al. (2003) and the theory on economic interests of social groups in dictatorships and democracies by Acemoglu and Robinson (2006). Although these authors did not develop their ideas to study international business, their approach allows us to analyze the conflicting interests between multinationals and host governments in the light of the role of political coalitions. By following this approach, we respond to the call made by several scholars who argue that no international business analysis is complete without considering the role of the state (Lenway and Murtha 1994; Murtha and Lenway 1994; Grosse and Behrman 1992; Skocpol 1985). Our use of the selectorate theory also contributes to a more interdisciplinary approach to international business by taking into account the recent theoretical achievements of political science, the discipline that focuses on the state.

Bueno de Mesquita et al. (2003) define *selectorate* as the "set of people whose endowments include the qualities or characteristics institutionally required to choose the government's leadership and necessary for gaining access to private benefits doled out by government's leadership" (p. 42). Another group is the *winning coalition*, which is the "subset of the selectorate of sufficient size such that the subset's support endows the leadership with political power over the remainder of the selectorate as well as over the disenfranchised members of the society" (p. 51). The other selectorate members have the prospect of belonging to the winning coalition at some point. Democratic pluralistic countries tend to have large winning coalitions, while autocratic countries have small winning coalitions. Bueno de Mesquita et al. (2003) predict that a leader (ruler/president) will stay in power by using the tax income and distribute it among his winning coalition as public or private goods. The allocation of private or public goods depends on the ruler's ability to use tax revenue and the size of his winning coalition. A ruler with a small winning coalition will distribute taxes as private goods to the members of this coalition and "will make efforts to ensure that his supporters understand that they receive private goods because of his efforts" (p. 58). They conclude that even though this kind of policy does not benefit the population as a whole, it is essential for the ruler's survival. In times of economic crisis, however, an autocratic leader can perceive the threat of a revolution and has two potentially costly choices: Repression or redistribution (higher allocation of public goods in detriment of private ones). The decision will depend on how high he considers the risk of being overthrown is (Acemoglu and Robinson 2006; Bueno de Mesquita et al. 2003). For Acemoglu and Robinson (2006), political conflicts are usually around income distribution, which is also our assumption. In our study, we use these concepts and political dynamics to understand the policies followed by the governments of Colombia, Mexico, and Venezuela towards Jersey and the company's strategic response. The income generated by oil production could be used as a private or public good by the country's rulers depending on the threats to their political survival and the size and power of their winning coalitions.

Methodology

We define the regimes of the countries Jersey had to negotiate with using the conceptual framework of the 'selectorate theory' developed by Bueno de Mesquita et al. (2003) and the different economic interests of social groups in dictatorships and democracies as defined by Acemoglu and Robinson (2006). We use the Polity IV classification of each regime, which is a good proxy for constitutional constraints of the government from the POLCON database (Henisz 2000). We follow Bergara et al. (1997, p. 9) definition of constitutional constraints as "checks and balances or veto points within and between the executive and legislative branches," which permits us to predict whether the government will use oil income as private or public goods

In order to understand the relative power of Jersey in the local economies, we calculated the company's participation in oil exports and relate them to the weight of oil exports in the countries' GDP. The government policies and the company's strategies are studied in the light of the relationship between the three countries and the United States, which frequently intervened in the conflicts around oil between the host governments and US multinationals. We do a country-by-country analysis, which we later combine for comparison purposes.

The three countries we study started the twentieth century with similar political landscapes, however their polities diverged between the 1920s and 1970s.[1] In the first years of the twentieth century, autocratic military presidents who shared an affinity to development through FDI in the natural resource sectors ruled them. These presidents took power after long periods of political instability, but managed to pacify their countries, attract foreign investment, and modernize their countries' infrastructure. The length of time they remained in power varied: Colombia's Rafael Reyes stayed in power for four years (1904–1909), Mexico's Porfirio Díaz thirty-five years (1876–1911) and Venezuela's Juan Vicente Gómez twenty-seven years (1908–1935). The Polity IV scores in Fig. 1 show the divergent paths each country took after Reyes, Díaz, and Gómez. A-10 Polity score means an absolute authoritarian regime and a score of +10 means perfect democracy (Marshall and Jaggers 2002). As we show in the sections below, the government's degree of inclusiveness affected the policies towards foreign multinationals.

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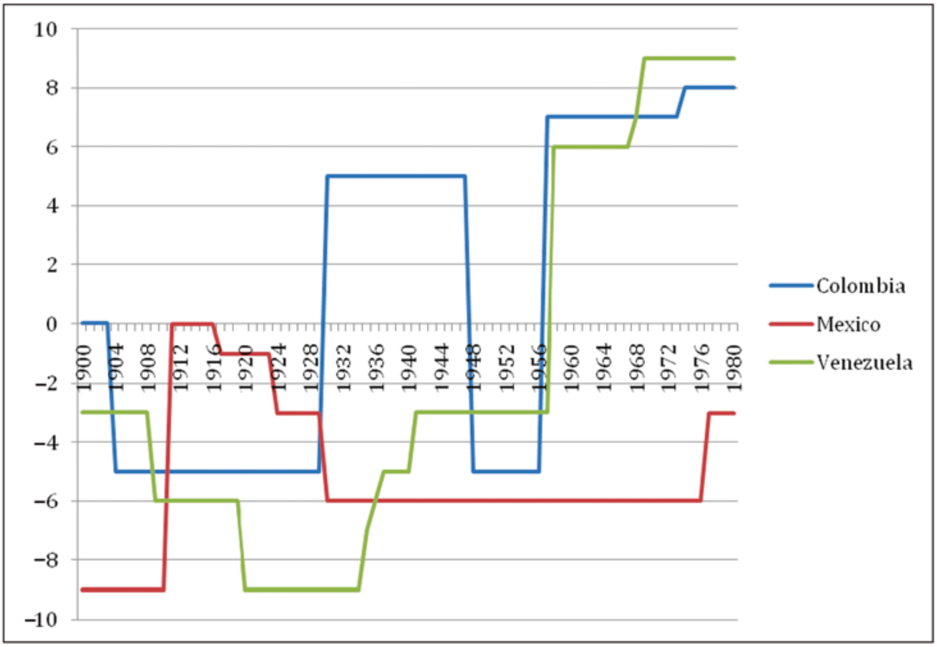

Fig. 1: Polity scores Mexico, Colombia, and Venezuela (Source: Polity IV Database (Henisz 2000))

Oil Economy and Jersey's Operations

Throughout the twentieth century, the three countries we study were major oil producers. As Table 1 shows, Mexico reached its peak in the 1920s and experienced a steady decline afterwards. At its highest point, Mexico produced 25% of the world's oil output. Venezuela shows a constant increase, which skyrocketed dramatically in the 1930s. Colombia shows a steady increase, particularly after the 1920s.

How important was the oil sector for each of the three economies? Before 1912 the participation of oil in the total exports of the three countries was nil or insignificant. Afterwards, the participation of oil in Mexican total exports increased rapidly reaching a point of more than 50% in 1922. Although this participation decreased it remained high until 1938, year in which the Mexican government expropriated the foreign multinationals' properties. Venezuela displays the most dramatic case. After 1921, the participation of oil exports in total exports skyrocketed reaching points above 90% after 1943 (Table 2). The Colombian case is similar to that of Mexico in terms of participation of oil in total exports, with the difference that Colombia's output was not as significant as Mexico's worldwide, and Colombian oil exports never reached levels above 23% of the total. We must highlight, however, that between 1925 and 1927, the participation of oil in total exports climbed from negligible levels to 20.5%. This sharp increase explains the strong interest the Colombian government had on the industry during those years.

The participation of oil in total exports is a relevant index because these three countries highly depended on foreign trade. As Table 3 shows, the three countries had a high

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Table 1: Oil production in thousands of barrels: Colombia, Mexico, and Venezuela (Source: American Petroleum Institute (various years))

	Mexico	Venezuela	Colombia
1910	3,634	0	0
1911	12,553	0	0
1912	16,558	0	0
1913	25,696	0	0
1914	26,235	0	0
1915	32,911	0	0
1916	40,546	0	0
1917	55,293	120	0
1918	63,828	333	0
1919	87,073	425	0
1920	157,069	457	0
1921	193,398	1,433	67
1922	182,278	2,201	323
1923	149,585	4,201	425
1924	139,678	9,042	445
1925	115,515	19,687	1,007
1926	90,421	36,911	6,444
1927	64,121	63,134	15,014
1928	50,151	105,749	19,897
1929	44,688	137,472	20,285
1930	39,530	136,669	20,346
1931	33,039	116,613	18,237
1932	32,805	116,541	16,414
1933	34,001	117,720	13,158
1934	38,172	136,103	17,341
1935	40,235	149,113	17,600
1936	40,368	165,452	20,513
1937	46,690	186,230	20,599
1938	38,297	181,440	21,582
1939	42,779	205,956	22,037
1940	40,350	184,761	26,067
1942	34,815	147,675	10,487
1943	35,163	177,631	13,261
1944	38,203	257,046	22,291
1945	43,547	323,415	22,825
1946	49,212	388,200	22,250
1947	56,284	434,905	21,846
1948	58,508	490,015	23,734
1949	60,910	482,316	22,589
1950	72,443	546,783	23,353
1951	77,312	622,216	24,465

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Table 1: (continued)

	Mexico	Venezuela	Colombia
1952	77,275	660,254	24,807
1953	73,178	644,244	28,469
1954	83,653	691,812	29,650
1955	89,406	787,438	30,495
1956	90,660	899,212	31,013
1957	88,266	1,014,457	33,953
1958	93,533	950,796	35,829
1959	96,393	1,011,452	44,710
1960	99,049	1,041,708	64,232
1961	106,784	1,065,790	84,418
1962	111,830	1,167,916	98,154
1963	114,867	1,185,511	97,221
1964	115,576	1,241,782	100,370
1965	117,959	1,267,602	98,262
1966	121,149	1,230,503	104,757
1967	133,042	1,292,917	114,739

participation of total exports in their GDP, being Venezuela the most dependent country on the global economy.

How important was Jersey in each of these countries? Our calculations of the weight of Jersey's production in total oil production for each of the three countries, as shown in Table 4, uncovers that this company was very important in the three countries, although not in the same degree. During the period we study, Jersey controlled almost all the oil production in Colombia, around half in Venezuela, and never more than a fourth in Mexico. The second main company operating in these countries was Royal Dutch-Shell (hereafter Shell). Before 1928, we can assume Shell as a competitor of Jersey. After 1928 until 1938, however, Shell and Jersey agreed on cartelizing the world's oil economy, so governments could not make the two companies compete with each other. Shell and Jersey remained the dominant firms in the oil industry until the 1960s (Penrose 1968).

Selectorates, Winning Coalitions, and Corporate Strategy

The selectorate theory predicts that the particular policy followed by a government towards an important sector of the economy will depend on the size and stability of the country's political winning coalition. This section shows that government actions in the oil sector in Venezuela, Colombia, and Mexico are consistent with the selectorate theory, but also demonstrates that the space for maneuver by both the state and the multinational was constrained by the multinational's weight in the domestic oil sector and the host country's relations with the United States.

Table 2: Oil exports as percentage of total exports (Sources: Villar and Esguerra (1999); Kuntz (2004); Duran (1985))

	Mexico	Colombia	Venezuela
1911	2	0	0
1912	6	0	0
1913	10	0	0
1914	11	0	0
1915	13	0	0
1916	15	0	0
1917	16	0	0
1918	21	0	0
1919	22	0	0
1920	38	0	1.9
1921	56	0	8.8
1922	51	0	11.4
1923	36	0	18.3
1924	11	0	30.6
1925	13	0	41.6
1926		8.45	62.4
1927		20.5	63.2
1928		19.3	76.6
1929		21.3	76.2
1930		23.2	83.2
1931		16.1	84
1932		23.3	84.6
1933		13.5	89.6
1934	23.1	18.5	90.6
1935	19.3	20.4	91.2
1936	18.8	17.9	89
1937	16.9	19.8	88.3
1938	13.4	20.8	93.3
1939		18.2	93.9
1940		23.8	94
1941		23.01	94.3
1942		7.4	89.4
1943		9.15	91.2
1944		16.4	94.4
1945		15.8	92.5
1946		11.85	91.8
1947		13.4	94.7
1948	15	14.1	95.9
1949		17.35	97
1950		16.4	96.2
1951		15.2	95.8

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Table 2: (continued)

	Mexico	Colombia	Venezuela
1952		14.8	94.4
1953		12.6	93.8
1954		11.3	93.7
1955		10.3	93.5
1956		12.6	93.3
1957		14.6	92.4
1958	3.6	14	91.9
1959		15	91
1960		16.7	86
1961		15.2	91.7
1962		12.7	92.3
1963		16.9	92
1964		13.3	93.4
1965		16	92.9
1966		13.8	92.3
1967		11.8	92.1
1968	3.6	6.4	93.5
1969		9.2	91.9
1970	3.5	7.9	90.7

Mexico: Changing the Winning Coalition Through Revolution

General Porfirio Díaz ruled Mexico between 1876 and 1911. He brought stability and economic growth to Mexico but strongly limited political competition. Díaz's regime squarely fits in the selectorate theory's definition of a ruler with a small selectorate and small winning coalition. Not only did Díaz have very limited constitutional constraints (as it is evident in the Fig. 1), but also kept himself in power by distributing the country's wealth as private goods to the members of his winning coalition. As Haber et al. (2003b) aptly describe Díaz's regime, "Díaz realized that in order to co-opt potential opponents he needed to reward them with rents. He also realized that in order to generate those rents he needed to promote investment. Promoting investment necessarily required that Díaz specify and enforce property rights as private, not public, goods" (p. 47). This meant the creation of a complex system in which the national and regional elites economically benefited from the operations of foreign investors. One of the first (and most successful) oil firms operating in Mexico, the British company Pearson and Son learned to play Díaz's game and had in its board influential members of the Mexican elite including Díaz's son (Spender 1977).

The need to have a steady source of income for his winning coalition led Díaz to write legislation that encouraged FDI. During most of Díaz's administration Mexico was not a large oil producer, but many companies were aware of its potential and rushed to invest there. The first important discovery occurred in 1910, when Pearson and Son discovered the world's largest field at that time (the Potrero Number 4 field) (Spender 1977). By that

Table 3: Exports as percentage of the GDP (Source: Mexico and Venezuela, Oxford Latin American Economic History Database. Colombia (1998))

	Mexico	Colombia	Venezuela
1918	6.5		
1919	7.3		
1920	14.8		18.2
1921	12.8		20.6
1922	12.9		18.7
1923	10.4		18.1
1924	11.9		18.8
1925	7.8	18.5	21.4
1926	11.3	20.7	20.7
1927	11.4	20.3	22.2
1928	10.5	21.6	26.6
1929	10.9	22.4	30.9
1930	14.9	26.5	32
1931	12.8	24.3	37.2
1932	14.4	23.5	33.6
1933	11.4	22.1	38.3
1934	12.9	20.7	40.5
1935	16.4	22.8	39.7
1936	12.6	23.2	37.7
1937	11.7	23.1	25.1
1938	9.9	22.9	22.2
1939	9.9	19.9	18.7
1940	9.3	23.4	30.9
1941	7.2	17.5	35.2
1942	7.6	20	24.2
1943	8.6	24.2	26.2
1944	5.6	23.6	26.6
1945	6.1	22	20.5
1946	5.5	21.2	24
1947	6.5	18.9	22.4
1948	8.9	19.3	23.9
1949	9.9	18.5	20.4
1950	13.1	15.6	29.4
1951	8.4	17.1	30.5
1952	8.3	16.4	31.8
1953	9.4	17.6	31.6
1954	11.7	15.2	31.3
1955	11.5	14.8	32.8
1956	7.1	15	33.3
1957	7.7	15.3	35.7
1958	7	16.2	31.7

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Table 3: (continued)

	Mexico	**Colombia**	**Venezuela**
1959	7.3	17.6	29
1960	5.9	16.6	30
1961	6.7	14.8	27.6
1962	6.6	15.2	26.5
1963	4.6	14.4	24.4
1964	5.3	14	30.5
1965	5.3	15	28.8
1966	6	13.5	26.7
1967	4.6	14.7	32.9
1968	3.9	14.6	27.6
1969	3.9	14.4	29.5
1970	3.9	12.7	22.4
1971	3.8	12.3	24.4
1972	3.7	13.2	22.9
1973	4	13.4	28.2
1974	4.1	12.2	43.1
1975	3.3	13.9	32.6
1976	3.6	12.7	29.6
1977	5	11.6	26.6
1978	5.8	13.1	23.3
1979	8.5	13.6	29.6
1980	9.7	13.5	32.5

time, Jersey was part of John D. Rockefeller's Standard Oil Company and specialized in marketing US oil in the Mexican market. After the dissolution of the original Standard Oil, Jersey was left with no US domestic oil sources and started looking elsewhere (Gibb and Knowlton 1956).

The discovery of the Potrero field and the dissolution of Standard Oil Company came at a time when the political stability in Mexico abruptly ceased. Peasants and workers felt that they were not enjoying a fair share of Mexico's spectacular economic growth under Díaz. Even worse, some members of the elite felt excluded from Díaz small inner circle. This led to a rebellion by members of the excluded upper class against Díaz in 1910, which quickly sparked peasant rebellions all over the country that the original upper class rebels could not control. After 1911, the country fell into a chaotic civil war between different revolutionary factions leading to a collapse of the Díaz's system (Womack 1991).

In 1915, in the midst of the civil war, a revolutionary faction led by Venustiano Carranza took power in Mexico City and started creating a new institutional framework. As a revolutionary leader, Carranza was not going to rely on the same winning coalition that kept Díaz in power for three decades. As predicted by the selectorate theory, Carranza had to create institutions that guaranteed a new distribution of public goods. Carranza, however, did not have a large selectorate. He had no control over the whole Mexican territory and was in constant fight with regional revolutionary factions. In order to ensure his fol-

Table 4: Percentage of total oil production produced by Standard Oil of New Jersey (Sources: Calculations with information from Gibb and Knowlton (1956); Larson et al. (1971); American Petroleum Institute (various years))

	Mexico	Venezuela	Colombia
1918	1.5	0	0
1919	8.9	0	0
1920	8.9	0	0
1921	6.8	0	82.8
1922	2.6	0.3	83
1923	14.3	0.9	71.1
1924	13.1	0.2	44.1
1925	14.4	0.004	68.1
1926	7.7	0.02	88.3
1927	5.5	0.06	89.2
1928	4.6	4.9	88.4
1929	4	4.9	88.7
1930	4.1	4.5	88
1931	4.5	6.4	87.6
1932	15	25.8	87.4
1933	22.8	38.4	87.6
1934	26.1	43	87.5
1935	16.9	44.3	87.7
1936	10.7	43.8	80.6
1937	12.6	46.4	87.7
1938	1.9	46.9	88.8
1939	0	48.3	90.2
1940	0	46.9	80.8
1942	0	47.6	88.7
1943	0	47.5	86.4
1944	0	47.1	79.4
1945	0	45.5	66.8
1946	0	42.4	51.5

lowers' credibility on his revolutionary project, Carranza approved a new constitution in 1917, which changed the legal framework the oil industry had operated with in Mexico. The new constitution nullified the 1884 Díaz law that granted ownership over subsurface oil to the surface owner, and changed it for Article 27 which declared the subsoil property of the nation opening grounds for expropriation. The need for tax income from the companies to fight against the different rebel factions led Carranza not to do anything against the companies besides increasing taxation. Similarly, in the areas where the government had no control, the rebels did not destroy oil facilities but taxed them (Brown 1993; Haber et al. 2003a).

Jersey started production operations in Mexico in 1917, the same of year the new constitution. Jersey was not the only company investing in Mexico in the midst of a civil war and with a constitution that endangered its property rights. As Brown (1993) has shown, the Mexican oil boom occurred precisely in the worst times of the civil war, something that was possible because of the different factions' reluctance to destroy the oil industry. The companies did not remain passive to Article 27 of the new constitution, which they declared "confiscatory." They allied themselves in their opposition to the new article and sought support from their home governments (mainly Britain and the US). The US condemned the new constitution and new taxes but did not take more aggressive actions against Mexico. This was partly because the American government was aware that direct military action could be fatal, so it limited itself to threats of economic sanctions (Brown 1993).

Both the multinationals and the US openly expressed that they respected Mexico's right to change the constitution, but wanted to make sure that the concessions awarded before 1917 were going to operate under the pre-1917 terms. This meant, they did not want Article 27 to be retroactive. The lack of a clear answer to this concern by the Mexican government created constant tense relationships between the two governments and the multinationals (Meyer 1977; Meyer 1991).

In 1920, Alvaro Obregón, one of Carranza's generals, overthrew Carranza. In his first months in power, Obregón faced numerous rebellions and conspiracies by several military men. As a defense, Obregón allied himself with peasant and labor union organizations, which became his main political allies. Under Obregón, the country's largest workers' federation (the CROM in its Spanish acronym) became a vital player to the president's survival (Haber et al. 2003a, 2003b). The government's winning coalition had clearly changed from the one in the Díaz era.

Under Obregón, Jersey opted again for collective action in conjunction with the other oil companies, and negotiated new (higher) taxes with the new president. The American government continued concerned about the possibility of having Article 27 retroactive. Finally, in 1922, the Mexican government committed to the US not to make the article retroactive against companies that had undertaken "positive acts." The vagueness of the term, however, became a problem in the subsequent years. Between 1924 and 1928, the post-Obregón governments attempted to extract more from the companies and considered ignoring the 1922 agreement with the US. The companies again counted with the support of the US who threatened the Mexican government with arming the rebels still fighting in Mexico. The credibility of this threat led the government not to act against the multinationals (Meyer 1991; Haber et al. 2003b).

In the late 1920s and the 1930s, the dynamics between the multinationals, the Mexican government, and the US changed due to political and technical issues. First, after reaching its production peak in the mid-1920s, Mexican production gradually declined despite the companies' efforts to increase it. By the late 1920s it was clear that Mexico was simply running out of oil, so the companies started looking in Venezuela and Colombia (Brown 1995). Second, the US foreign and domestic policy changed significantly after the election of Franklin Delano Roosevelt in 1933. In terms of foreign policy towards Latin America, Roosevelt started what he called the "Good Neighbor" policy, a shift from violent interventionism to diplomacy and respect for the sovereignty of nations. Domestically, the oil companies were not considered allies of the Roosevelt administration and, therefore, could not expect the same kind of support they had enjoyed in previous times.

Third, the Mexican government reached for new allies among the financial and industrial sector, while labor unions remained loyal to the government after their leaders were co-opted by the ruling party. With the new alliance, the Mexican government pushed for policies of industrialization (Knight 2001).

The election of Lázaro Cárdenas as president of Mexico in 1934 marked the end of the era of multinational companies in that country. Cárdenas, who took power at a time when Mexico had finally achieved political stability, focused on institutionalizing the revolution through a political party (which eventually became the Institutional Revolutionary Party, or PRI). Cárdenas' winning coalition was organized labor, so he created a mechanism by which the government transferred rents to labor unions rather than powerful individuals. At the same time, he created a number of state owned enterprises and government agencies that provided lucrative jobs to crucial allies (Haber et al. 2003b). It was in this scenario where the Mexican labor unions went on strike against oil companies demanding higher wages in 1938. The multinationals refused to give in to the workers' demands and the unions sued the foreign companies at the Mexican Supreme Court, which sided with the workers and ruled that the companies should comply with the workers' demands. When the multinationals refused to do this, Cárdenas supported his winning coalition and decreed the confiscation of foreign property in the oil industry. The companies' properties were taken over by the government who created a new state-owned corporation (PEMEX) in which the labor unions had strong power. As a result, the unions partially managed and directly benefited from the rents of PEMEX's operations (Barbosa 1992; Haber et al. 2003b). In short, Cárdenas provided his winning coalition with a rich source of income

Jersey and the other companies requested help from the United States. Even though the US protested against the expropriation, it did not support the companies in the same way it did in the past, because the democratic administration distrusted the oil corporations, and Cárdenas openly showed his opposition fascism in Europe. With a possibility of joining World War II, the US did not want to alienate an ally in its southern border and told the US multinationals to accept the compensation offered by the Mexican government (Yergin 1991).

Colombia: Oil and Partisan Politics in a Coffee Economy

Contrary to what happened in Mexico, Jersey entered the Colombian oil industry with virtually no competition. The company controlled most of the country's oil production for most of the twentieth century (Table 4). In addition, before 1930, there was not significant political competition in that country (Fig. 1). The first three decades of the twentieth century are known in Colombia as the "Conservative Hegemony." This was a period in which the Conservative Party ruled the country winning one election after another against its rival the Liberal Party. A time of relative political peace and economic growth pushed by coffee exports, the Hegemony Conservative governments limited the participation of the Liberals in the electoral process using corruption and intimidation (Palacios 2006). This did not mean the country was a dictatorship. As a comparison of the polity scores in Fig. 1 and historical facts show to us, the Liberal opposition had more freedom than those opposing Mexico's Díaz (or as next section shows, Venezuela's Gómez). The main

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members of the Conservative Party winning coalition were the coffee exporters, industrialists, the military, and the Catholic Church (Palacios 2006). Public goods like health and education were allocated as private goods in hands of the Catholic Church, while coffee exporters enjoyed favorable tax policies, and the industrialists increased protectionism. Given the relatively high participation of the population in presidential elections, we can also assume a large selectorate supporting the Conservative Party (Posada-Carbó 1997).

Jersey entered Colombia after the first important discovery of oil in that country in 1919. The company purchased the Tropical Oil Company, the American corporation making the discovery and continued producing for the foreign markets and refining for the domestic one (De la Pedraja 1985). Oil companies had been lured by the Conservative governments since the Reyes administration (1904–1909) with tax incentives and generous concessions. However, once oil was discovered in 1919, the government increased taxation and royalties. Jersey responded by requesting support from the US government and challenging the government's decision at the Colombian Supreme Court (Villegas 1975).

The American government had a very credible threat to make Colombians cautious when acting against US companies. In 1903, the US government supported the separation of the Colombian province of Panama into an independent country. Once Panama separated from Colombia, the new Panamanian government granted special privileges to the US over the zone where the Panama Canal was to be built, and the Colombian government negotiated the payments of reparations from Washington. After Colombia wrote a new legislation increasing taxation on oil production in 1919, Washington threatened with reconsidering the payment of reparations and withdrawing from the negotiations (Bucheli 2008). For a country short of capital, this was a serious threat, which might have influenced the final decision of the Colombian Supreme Court. After this incident, Jersey became an important political actor in Colombia by lobbying in Washington for the payment of reparations to Colombia. The benefit Jersey obtained from this was that the Colombian government blocked British companies from entering Colombia. In 1925, Jersey eventually succeeded at convincing some reluctant Republican congressmen and the US paid an indemnity of $25 million (Lael 1987; De la Pedraja 1993).

Concession periods were relatively short in Colombia compared to those in Venezuela and Mexico. Jersey's main concession in Colombia was scheduled to expire in 1946, so the company established a new Canadian company (Andian Corporation) in charge of the main pipeline that transported the oil produced by Jersey to the ports. The advantage of this strategy was that Andian was not subject to the same concession deadlines as Jersey and it could continue operating in the country after 1946. The Colombian opposition harshly criticized the creation of Andian, which they considered outright cheating. However, during the negotiations around the Panama reparations, the US pressured Colombia to approve the contracts with Andian as an independent company, a point the Colombian negotiators eventually gave in (De la Pedraja 1993; Villegas 1975).

During the 1920s, the opposition Liberal party enlarged its selectorate by approaching the growing urban middle class and industrial labor movement. With an institutional framework that made it possible for an opposition party to win the elections, the Conservative Party attempted to change the country's oil policy in 1927 (Melo 1989). The government attempted to increase taxation and write a nationalist legislation in the oil sector, which contemplated expropriation. This initiative confronted strong opposition from the US, which threatened with blocking external loans to the country from private banks. The pressure led the Conservative government to eventually drop the new oil legislation. A policy of higher taxation to the rapidly growing oil sector could have increased the government's capacity to distribute more public goods among the selectorate, a crucial strategy in times when the opposition party was creating a larger base (De la Pedraja 1993; Villegas 1975). In 1930, a demoralized and divided Conservative Party lost the presidential elections against an invigorated Liberal Party.

As Fig. 1 shows, the Liberal Party opened Colombian politics dramatically. New legislation was created that allowed a wider participation of the population in politics and new freedoms were granted. The strongest approach to the working class came during the Alfonso López administration (1934–1938), which rewarded his winning coalition with unprecedented social reforms benefiting the working class. Under López, the government and Jersey debated the end of the concession deadlines. While Jersey argued that the concession ended in 1951, the government argued the deadline was in 1946. The two parts went to the Colombian courts, which eventually decided in Jersey's favor, so US intervention was not necessary (De la Pedraja 1993; Villegas 1975).

The initial enthusiasm of López's social reforms faded in the subsequent administrations. The working class soon realized that the Liberal Party elite was not willing to include them as part of their coalition, so they turned their support to Jorge Eliécer Gaitán, an independent politician from the Liberal Party who promised wealth redistribution. The coalition created by López in 1934 collapsed in the 1946 elections. The Liberal Party went to the elections divided between an official candidate and independent Gaitán (backed by the working class), against Mariano Ospina, the Conservative candidate close to the industrial elite. Ospina won the elections and followed policies of protectionism of the national industry. During his administration (1948), Gaitán was assassinated sparking a nation-wide spread of violence the government attempted to control by limiting individual freedoms and through repression (Palacios 2006). As the scores in Fig. 1 show, the Colombian government turned increasingly dictatorial after 1948.

The post-1948 Conservative governments relied on the small but loyal industrial and coffee exporter elite as their winning coalition. This can partly explain the peaceful transfer of Jersey's properties to the Colombian government in 1951. As established in the concession deadline, Jersey returned its properties to the Colombian government in 1951, something the company highlighted as an example of how nationalization could be done within the law and respecting contracts (Wall 1988; International Petroleum Company 1951). Jersey was not expelled from the country as in Mexico, but remained there working as a subcontractor for the new state-owned oil company ECOPETROL. On the other hand, the alliance with the United States solidified so much that Colombia sent troops to Korea to fight alongside the US armed forces (Coleman 2008). In the decades that followed, the government's winning coalition continued being composed by the industrial and agricultural elites and excluded the working class, so no aggressive actions to re-allocate private goods as public goods were taken.

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Venezuela: From Personal Oil Hacienda to Major International Player

Venezuela has been the most relevant actor in the world's oil sector among those we study in this paper. For more than forty years (1928–1969), Venezuela was the world's largest exporter of petroleum and before 1976 the industry was almost completely controlled by Shell and Jersey (Table 4). The rise of Venezuela as a major oil producer took place during General Gómez's rule, whose polity scores resemble those of Díaz in Mexico. Gómez was the best ruler an oil company could count on. Taxes were really low before the oil boom. Once oil started flowing in 1918, Gómez's minister of development drafted a new oil legislation increasing taxation and royalties. After the companies protested, Gómez fired the minister and asked the companies to write the oil legislation themselves (McBeth 1983). The company-written legislation regulated the Venezuelan oil industry between 1922 and 1943.

Gómez used the oil wealth to keep himself in power by permitting his winning coalition to enrich itself from this new source of income. The president handed oil concessions to his closest allies, who afterwards sold them to the oil companies at handsome profits. In addition, production costs in Venezuela were lower than in other major producing areas and transportation costs to the Aruba or American refineries were also low (Lieuwen 1970).

The 27-year Gómez government ended with his dead in 1935. The military government succeeding him (General López) gained popular support when announcing changes in the oil policy and social reforms. Ruling on behalf of the growing middle class, López increased taxation and technical controls to the oil companies. López, however, was not open to labor activism and repressed the new unions created in the oil industry after the fall of Gómez. The military saw no reason to enlarge their winning coalition much. As described by former Venezuelan President Rómulo Betancourt, "López transferred the government of Venezuela to his own Minister of War, General Isaías Medina [in 1941]. He thus continued fulfilling… the norms of an electoral system… whereby the presidency of the republic was the ultimate goal in a military career" (Lieuwen 1970, p. 199). In short, the post-Gómez military ruled with a small selectorate and small winning coalition. As a result, the higher taxes to the foreign companies translated in corruption and enrichment of the dictators' closest allies.

Medina started his administration with strong nationalistic speeches promising changes in the oil policy. He managed to increase royalties and taxes, and wrote a new legislation forcing oil companies to refine part of their crude in Venezuelan territory. These regulations did not stop investments in Venezuela. The companies' production rapidly increased in the last years of World War II, providing the government with unprecedented income to distribute among loyalists. The lack of real social reforms led some frustrated young officials to overthrow Medina in 1945 and install a civilian government (Tugwell 1975; Betancourt 1978)

The *Acción Democrática* Party (AD) led the new civilian government. AD's main support came from the oil workers and the policies around oil were consistent with the expectations of the party's winning coalition. AD revolutionized the world's oil industry by establishing for the first time in history equal participation of the state in the industry's profits (the so-called 50–50 system). In addition, the government demanded the oil companies to invest in sectors such as housing and education, and supported the oil workers' demands for higher wages (Betancourt 1978; Lieuwen 1970). Jersey initially protested against these measures, but found no support from its home government who advocated for an amicable solution. In the end, Jersey complied with the new regulations and proudly showed itself as a crucial actor in Venezuela's social and economic development, while simultaneously looking for better prospects in the Middle East (International Petroleum Company 1947; Lieuwen 1970).

The new AD era was abruptly interrupted in 1948, with General Marcos Pérez Jiménez military coup. Pérez Jiménez attempted to turn the clock back by dissolving the petroleum workers' federation and decreasing taxation to foreign companies. The 50–50 system remained on the books but was not implemented fully. Pérez Jiménez's decade-long dictatorship was characterized for corruption in the oil sector and little social investment. Following the logic of his military predecessors, Pérez Jiménez used the oil wealth to assure himself in power (Betancourt 1978; Lieuwen 1970; Tugwell 1975). During this period, Jersey remained unbothered by the government and continued doing business as usual.

A coup by officials sympathetic to AD overthrew Pérez Jiménez in 1958 and put AD back in power. The returning AD government believed that in order to avoid new rebellions it had to enlarge its coalition. In order to achieve this, AD raised the budget of the military, promised to respect the property rights of the landowning oligarchy, decreased taxation to the industrial sector, and slowed down social reforms. The social programs that remained were not financed through taxation to the Venezuelan private sector but from taxes paid exclusively by the foreign oil companies (Tugwell 1975; Lieuwen 1970). In short, AD distributed private goods while at the same time using the ever-growing oil income to distribute public goods among those belonging to its original winning coalition.

AD's return to the government started a new era of collective action of the world's oil producers. During the short transition period after Pérez Jiménez fall, the military that brought AD back to power changed the 50–50 system into a 60–40 favoring the government. Shell and Jersey demanded the new AD government to go back to the 50–50 or they would divest from Venezuela. AD's strategy was to convince the other Middle Eastern oil producers to also use the 60–40 system, aborting the multinationals' threats (Lieuwen 1970; Tugwell 1975; Karl 1997). In 1960, Venezuela took the most fundamental initiative of the post-World War II period when it convinced the Middle Eastern producers to create an international oil cartel, the OPEC.

While creating collective action mechanisms abroad the AD government also created new institutions in Venezuela to have tighter control over the oil multinationals' operations. Some members of the main opposition party (COPEI) opposed these measures arguing that they could kill the goose that laid the golden eggs. Jersey allied with COPEI's opposition and was relieved when COPEI won the 1969 presidential elections. Venezuela, however, was not an autocratic regime anymore and with a majority in congress, AD continued pushing for a more nationalistic agenda in the oil sector, such as a law requiring 85% profit for the nation in contracts between the state and foreign companies. With OPEC members taking important steps in the Middle East to increase their share in oil profits, the COPEI government eventually joined AD's nationalist agenda and

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nationalized natural gas in 1971. The companies retaliated collectively by cutting back production. However, the sudden and dramatic hike in oil prices of late 1973 ended with the companies' resistance and they increased production to make the most out of this bonanza (Betancourt 1978; Lieuwen 1970; Karl 1997).

The convergence of COPEI and AD in terms of oil policy made the companies realize that a nationalization of the oil industry was close. Both under AD or COPEI, Venezuela was a close ally of the US in the war against communism, so the multinationals did not expect much support. Thus, they prepared themselves for a post-nationalization Venezuela by decreasing their fixed assets and investing in marketing operations for the growing Venezuelan domestic market (Lieuwen 1970; Monaldi et al. 2006).

The multinationals' calculations were right. In 1974, AD won the elections and the oil industry was nationalized in 1976. The government warned the companies that any legal action could make them ineligible for service contracts in the future with the new Venezuelan state owned company (PDVSA). Jersey remained in Venezuela as a contractor for PDVSA, which explains the very little resistance from this and the other companies against the nationalization. PDVSA, on the other hand became an important generator of income and employment for AD's political base, and the higher the income from oil exports, the more PDVSA was a source for investment in public goods (Lieuwen 1970).

Conclusion

In 1913, Martin Ribon, the negotiator of the British firm Pearson and Son wrote a report revealing his frustration with the many obstacles the firm was facing when negotiating for oil concessions with the Colombian government. Ribon wrote: "I have no doubt that you realize that the sort of concession that we are trying to get does not appeal to any government, and that it is very difficult to obtain it in a country enjoying a real parliamentary system; it is in my mind only easy in countries of a one man government like Mexico under Díaz, Venezuela under Gómez, or Colombia under Reyes. Had we come to this country when Reyes was in power, we should have gotten the question in very short time and in better terms" (quoted in Bucheli 2008, p. 542). Our analysis of these three countries demonstrates that the pattern perceived by Ribon in 1913 continued for the rest of the twentieth century. We show, however, that the more or less generous concessions to foreign companies were not simply a result of the better space for maneuver that dictators enjoyed relative to rulers in more democratic systems, but policies towards oil companies were directly related to strategies of political survival.

The strategy followed by a multinational (in this case Jersey) was closely linked to its role in the host country's ruler political survival. We show that when the country's president ruled with a small winning coalition and small selectorate, the company enjoyed generous policies because its rents were distributed among a limited but powerful group of people. However, when the ruler needed to increase the allocation of public goods, the rents generated by the multinationals were an obvious target. Under this threat, the multinational had the following choices: Request support from its home country, ally itself with other multinationals and confront the government, challenge the government in local courts, or accommodate. The evidence shows that the home country support was contingent to aspects out of the multinational's control, such as changing agendas of the US foreign policy. Jersey allied with other multinationals when it did not have an overwhelming control of the industry. Plus, between 1928 and 1938, Shell and Jersey agreed on cooperating with each other when confronting nationalist governments.

The place where Jersey challenged the government more successfully in the local courts was Colombia. During the period we study, this was the country where the government had more constitutional constraints, Jersey had an almost absolute control of the oil industry, and the US played a very powerful bargaining card with the reparations for the loss of Panama. In Colombia, the government challenged Jersey in times when it had its largest winning coalition. However, in a country such as Colombia, more dependent on coffee exports than on the oil industry, the government quickly abandoned its anti-Jersey policies and built another durable winning coalition with the industrial elite supported by a large selectorate.

Jersey's accommodating policies worked best in Venezuela. After years of small winning coalitions supporting a pro-multinationals' policy, the opening of the new political system by *Acción Democrática* left no room to the previous system created by Gómez and followed by other military presidents. The democratic governments needed to invest the oil wealth in public goods if they wanted to survive in the long-term. Aware of the irreversible nature of this process, Jersey continued profiting from the Venezuelan oil sector by accepting the nationalization of the industry and working as a contractor for PDVSA.

The use of selectorate theory combined with historical research can provide international business scholars with useful analytical tools to study the relations between multinational corporations and host governments. In this study, we illustrate that a government's decision to expropriate foreign property or to increase taxation to redistribute it among its population responded to the kind of winning coalition supporting the government and to the resources the government could count on to retain the loyalty of that coalition. Kobrin's classic studies (1980, 1984, 1979) argued that expropriation of foreign property took place when the host government had the capabilities to domestically develop the oil industry. Vernon (1966, 1971, 1979) and Wells (1971), on the other hand, argued that governments extracted more of foreign companies the more sunk costs these companies had in the industry. In our study, we push this literature a step further by showing that those conditions are necessary but not sufficient. The ruler's strategy to keep him/herself in power and the institutional constraints he/she has highly determine governments' actions towards foreign multinationals. Our cases illustrate that the initiatives to offer incentives to foreign corporations on one hand, or to increase taxation or expropriate on the other hand responded to the needs by home governments to keep the loyalty of their winning coalition and secure political survival.

Our in-depth historical case methodology could be particularly effective for the analysis of political relations of multinational corporations in other extractive sectors in poor countries. If a country depends highly on a particular sector of the economy, the policies towards that sector can determine the political survival of that country's ruler. In poor countries ruled by small winning coalitions, we would expect to have more generous policies towards foreign investors in the primary sector. When social and political changes lead to the creation of larger winning coalitions, we would expect a tougher environment

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for the multinationals—that is, a government trying to extract higher rents from multinationals. In times of increasing popularity of state interventionism and rise of economic nationalism, multinational corporations operating in the extractive industries of underdeveloped countries might consider the role these industries might play (or might be playing) in the country's president political survival.

The methodology we use in this article can be helpful to analyze more contemporary conflicts between host governments and oil multinationals. The database on selectorate size by Bueno et al. (2004) and on regime types by Henisz (2000) cover major oil producing countries with recent dramatic changes in their polity and institutional framework, with an uneasy relationship with foreign corporations, such as Venezuela, Ecuador, and Bolivia. These countries' rulers have recently reformed their constitutions allowing them to stay in power for a longer time than originally determined by their local legislation, have increased social spending boosting their popularity, and have enlarged the role of the state in the economy particularly in the oil and gas sector where they have clashed with foreign corporations. An analysis of these actions using the selectorate theory approach provides useful tools to understand these governments' actions and MNCs reactions in the light of these countries' long-term political development.

Endnote

1 The commonly accepted definition of polity is a country's "political and governmental organization" or "authority patterns." (Marshall and Jaggers 2002, p. 1).

Appendix: Oil Legislation, Jersey Strategy, and US Role in Mexico, Colombia and Venezuela

Government	Legislation	Company strategy	US relationship
Mexico			
Díaz (1876–1911): Military dictatorship	Mining code granted ownership over subsurface oil to the surface owner (1884). 1892 Law: Owners of surface could exploit oil without any special concession from the government. 1901 Law: Grants the president the right to award concessions on national lands for drilling. Tax incentives and exemptions. Taxes increased after oil discoveries of 1911	Company starts with marketing through Waters-Pierce. During this period, most concessions under British or French control	Supporter of Díaz dictatorship
Madero (1911–1913), Several interim presidents (1914–1915): Liberal. Chaotic situation with no clear ruler of Mexico	Madero and subsequent governments increase taxes to oil companies	Jersey makes several attempts to enter in the Mexican production business	Increasing tensions between Mexican and American government. US government protests against higher taxes. Brief US military intervention
Carranza (1915–1920): Revolutionary nationalist leader. In war against different regional factions	New taxes and higher royalties. New Constitution (1917). Article 27 declares subsoil property of the nation and opens possibility of expropriation	1917: After acquisition of a US independent company (Transcontinental) Jersey starts drilling and production operations. Opposition to New Constitution: Company allies itself with other multinationals to oppose Art. 27	US protests against new taxation. US government condemns 1917 Constitution but takes no action

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Government	Legislation	Company strategy	US relationship
Obregón (1920–1924): Revolutionary nationalist leader	New export taxes. Stable relationship with multinationals. Mexican oil crisis starts: Oil running out	Protests against new taxes. The company joins the other multinationals in negotiations over taxes with the government. Drilling and expansion programs continued	Stable tension between Mexican and US government. US government requests Article 27 not to be applied to American companies. Mexican government rejects the idea. Bucareli Agreement: Mexico commits to respect property of companies that had made "positive acts"
Calles (1924–1928), Portes (1928–1930), Ortiz (1930–1932), Rodríguez (1932–1934): Revolutionary presidents of increasing radical nationalism	Constant discussions on whether or not Art. 27 should apply retroactively. Government narrows "positive acts" definition to drilling	Drilling continues, but production decreases due to technical problems. In the late 1920s, the company decreases new explorations and gradually withdraws from Mexico	Tensions between the Mexican government and US government get worse. 1928: US government and Mexico agree on not making Article 27 retroactive. The US government doesn't consider the interests of the MNCs a priority
Cárdenas (1934–1940): The most leftist Mexican president	Nationalization of all foreign property in the oil sector. Creation of national state owned monopolistic company (PEMEX)	Protests and threats of boycott. Pleas for help to the US government	US government protests but doesn't support the companies. Cooperates with the Mexican government to reach an agreement with companies
Ávila (1940–1946), Alemán (1946–1952), Ruíz (1952–1958), López Mateos (1958–1964), Díaz (1964–1970), Echeverría (1970–1976): Center or center-left presidents (except Díaz who was center-right)	Some multinationals awarded minor service contracts. Most operations under PEMEX	Company limits itself to retail operations of final consumer goods through Esso	Stable and friendly relationship Mexico-US

(continued)

Government	Legislation	Company strategy	US relationship
López Portillo (1976–1982), De la Madrid (1982–1988), Salinas (1988–1994): Center-right presidents	Attempt to change oil legislation to permit wider participation of foreign companies. Strong resistance of PEMEX	Some minor exploration service contracts between Exxon and PEMEX in Southern Mexico	Stable and friendly relationship Mexico-US
Colombia			
Reyes (1904–1909), Holguín (1909), González (1909–1910), Restrepo (1910–1914), Concha (1914–1918): Civilian Conservative governments	Open door policy to foreign investment. Incentives in taxation	Jersey enters the country after oil discovery in 1919. Entry by acquisition of another US independent company	Tense relationship after the loss of Panama in 1903. By the 1920s, governments allied in their anti-Communism
Suárez (1918–1921), Ospina (1922–1926): Civilian conservative presidents	Government changes the legislation right after oil discovery in 1919: Higher taxes and royalties. Attempt to define clear concession deadlines	Increase of production. Approach to the US government. Creation of "Canadian" subsidiary (Andian) that was not subject to concession deadlines	US government supports company. Pressures for approval of Andian contract as part of the negotiations around Panama reparations
Abadía (1926–1930): Civilian conservative president	Increase nationalism to counterweight growing opposition: Tax increases. Approach to British companies to compete with US multinationals	Increase of production. Approach to US government	US government pressure to drop nationalist legislation
Olaya (1930–1934): Civilian liberal president	Legislation that protects foreign property	Approach to the Colombian government through loans	Support of the Olaya government policies
López (1934–1938): Civilian liberal president close to labor movement	Conflict with multinationals over concession deadlines. Eventually decided for 1951 Increase in taxation	Increases production anticipating concession deadline. Goes to court to define concession deadline in 1951 and not 1946. Wins case in court. Increases efforts in transportation and marketing. Looks for new territories and new concessions	US government accepts concession deadlines

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(continued)

Government	Legislation	Company strategy	US relationship
Santos (1938–1942), López (1942–1945), Lleras (1945–1946): Civilian liberal presidents	Legislation that protects foreign investment and defines terms of future concessions	No significant change	Close alliance between Colombian government with US government
Ospina (1946–1950), Gómez (1950–1951), Urdaneta (1951–1953): Civilian conservative autocracies	Business friendly government. Receives concessions back from Jersey. Create national state-owned oil company (Ecopetrol). Nationalization without expropriation	Company starts providing services to Ecopetrol. Keeps exploring in other areas of the country. Andian keeps transporting oil	Close alliance between Colombian government with US government
Rojas Pinilla (1953–1957): Populist military dictator	Not major modifications	Jersey keeps doing business with Ecopetrol providing services	Alliance with the US government in the fight against Communism
A. Lleras (1958–1962), Valencia (1962–1966), C. Lleras (1966–1970), Pastrana (1970–1974): Civilian presidents	Government seeks to get remaining old concessions from other companies returned	Jersey reinforces its role as a marketing company	Close alliance between Colombian government with US government
López (1974–1978), Turbay (1978–1982): Civilian presidents	With a new legislation government forbids new concessions, but respects existing ones. Joint ventures replace concessions with increasing participation of Ecopetrol	Company participates in joint ventures with Ecopetrol exploring and producing. Builds and manages a huge coal mine in association with the government. Continues with marketing activities	Close alliance between Colombian government with US government
Venezuela			
Juan Vicente Gómez (1908–1935): Military dictator	Favorable legislation, written by the companies	Acquisition of independent companies. Strong exploration and drilling. Construction of refinery in Aruba	Cordial relations with the US

(continued)

Government	Legislation	Company strategy	US relationship
López Contreras (1935–1941), Medina (1941–1945): Right-wing military dictators who sought benefits for the middles class	Increase of royalties (from 7% to 16 2/3%) and taxes (from 2.5% to 9.5%) paid by the foreign companies. New requirement of 75% local workers. Government pressure companies to build refineries in Venezuelan territory	Initial resistance that ended due to the lack of US government support	Lack of support of US government to companies. Support of US government to Venezuelan government initiative. US government cooperates for an amicable solution
Betancourt (1945–1948), Gallegos (1948): Center left-wing civilian governments	Adoption of the 50–50 system, establishing equal participation of the government and the multinationals of oil profits. Nationalization planned for 1983	Conciliatory attitude. Company increases production. Expansion of activities to include participation in non-oil related government projects; closer relationship with the government due to new demands made by the government	Lack of support of US government to companies
Delgado (1948–1950), Flamerich (1950–1952), Pérez Jiménez (1952–1958), Larrazabal (1958–1959): Right-wing dictators	No significant changes to oil policy, except during Larrazabal's administration when the government raised oil taxes. Repression of labor movement	Strong drilling and production activity. Stable relations with Venezuelan government	Alliance US-Venezuela to fight Communism. The US government requests American companies to be moderate in their demands to the Venezuelan government. US decreases import quotas of foreign oil
Sanabria (1959), Betancourt (1959–1964), Leoni (1964–1969): Center left-wing civilian governments	Increase in taxation. Government gets 67% of gross profits. Approach to Arab countries and creation of OPEC (1960)	Increase of production but with less fixed assets. Strong divestiture process. Ally with right-wing opposition	Anti-Castro position of Venezuelan government makes US government not to intervene in favor of companies

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(continued)

Government	Legislation	Company strategy	US relationship
Caldera (1969–1974): Center right-wing civilian government	Government tries to stop divestiture process by offering the companies service contracts. Opposition of left-wing parties led government to nationalize gas industry in 1970 and to announce government ownership of oil fields after 1983	Divestiture and decrease in production. Company approaches government, but faces obstacles of left-wing opposition	Political alliance with Venezuela continues. American opposition to OPEC is not reflected in its relationship with Venezuela
Pérez (1974–1979): Center left-wing civilian government	Nationalization of the oil industry (1975). Creation of state owned oil company. Law permits government to sign service contracts with private companies	Little protest from the companies. They promptly sign contract services with the government	US government encourages companies to accept new terms

Sources: Randall (1992), Martínez (1989), Philip (1982), Villegas (1975), De la Pedraja (1985, 1993), Brown (1993), Brown (1995), Gibb and Knowlton (1956), Gibb and Knowlton (1956), Haber et al. (2003a, 2003b), Karl (1997), Larson et al. (1971), McBeth (1983), Penrose (1968), Tugwell (1975), Betancourt (1978), United States Senate (1946), Wall (1988), Wilkins (1970, 1974a, 1974b)

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