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Unobserved State Fragility and the Political Transfer Problem

by Faisal Z. Ahmed and [Eric Werker](#)

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Abstract

Autocrats experiencing a windfall in unearned income may find it optimal to donate to other countries some of the windfall in order to make the state a less attractive prize to potential insurgents. We put forward a model that makes that prediction, as well as the additional predictions that the recipients of the aid may themselves become more repressive with high levels of aid and experience conflict with medium levels of aid. We call these joint phenomena the political transfer problem and argue that the largest windfall of the 20th century, the period from 1973 to 1985 during which oil prices were at all-time highs, produced long-run political dynamics consistent with the model. In particular, major oil exporters have been politically repressive, generous with foreign aid when oil prices are high, and free of civil war; in contrast, the recipients of petro aid were relatively repressive (and peaceful) during the period of high oil prices but subject to civil war when oil prices fell and aid was reduced. Surprisingly, the political transfer problem did not seem to materialize when oil prices again began to creep up in the 21st century; this nonexistence of the problem can be explained by the model against the backdrop of evolving geopolitics and economics.

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