Cambridge University Press & Assessment
978-1-009-58003-8 — Crude Calculations
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Introduction

On May 31, 2007, a crowd of local, regional, and international business executives gathered along a dusty stretch of the Red Sea coast between the cities of Mecca and Medina. Occurring at roughly the midpoint of a global commodity 'super cycle,' the discomfort of the trip under the early summer sun was assuaged by the lucrative promise of Saudi Arabia's then-booming oil wealth. Amr Al-Dabbagh, the governor of the Saudi Arabian General Investment Authority (SAGIA), drew the group to promote King Abdullah bin Abdulaziz's latest economic ambition, the '10 × 10 program.' The aim was to make Saudi Arabia one of the ten most competitive investment jurisdictions by 2010, "through the creation of [a] pro-business environment, knowledge-based society and by developing economic cities" (Hanware 2007).

For international onlookers, the Saudi government's public recommitment to private sector growth and non-oil diversification was a case of déjà-vu. Just days before the promotion event for the 10 × 10 program, Nigerian president Umaru Musa Yar'Adua publicly vowed to "build an economy driven primarily by the private sector" (Obotetukudo 2011, 162). During his inauguration address in Abuja, the leader of the largest oil producer in Africa underscored his own commitment to non-oil private sector growth through his 'Seven Point Agenda.'

These promises of non-oil private sector growth shared more than a temporal coincidence. Rather, from genesis to demise, they followed a common path. Since the oil booms of the 1970s, both Saudi Arabia and Nigeria have pursued a loose chain of development plans and catch-phrase initiatives to support economic diversification through private sector growth and investment. From monarch to monarch in the kingdom, and military leader to president in the federal republic, the ruling political elites of both countries have publicly committed to making way for the entrepreneurs who work in the shadows of the dominant oil industry.

Despite the long-held and often repeated refrain of facilitating private sector, non-oil economic growth, the reform momentum in both countries came to an abrupt halt in just a few short years. Between June 2014 and January 2016, the price of oil plunged into a downturn that Mohammed Barkindo, secretary general of the Organization of the Petroleum Exporting Countries (2016–2022), would later describe as "the worst in history" (Bordoff 2022). Just as oil prices began to fall, policy initiatives to facilitate the creation of new companies fizzled. Neither government ignored the dramatic downturn; the Saudi government slashed its public spending, while the Central Bank of Nigeria was forced to take aggressive measures to prop up the Nigerian Naira. Yet, despite the desperate need for domestic economic growth during the oil downturn, and a drastic response from both governments to stabilize their slumping economies, efforts to support or streamline company creation were nowhere to be found. Both economies eventually drifted into technical recessions.

Only after the price of oil reached its nadir and began to trend upwards in early 2016 did elites in both Saudi Arabia and Nigeria renew their efforts to reform domestic barriers to private company creation. In Saudi Arabia, then deputy crown prince Mohammed bin Salman launched his landmark 'Vision 2030' initiative in April. Months later, Nigerian president Muhammadu Buhari inaugurated the Presidential Enabling Business Environment Council.

THE PUZZLE

This recent, paradoxical pattern of reforms to company creation regulations – in which reform initiatives were paused during the 2014–16 oil price downturn – prompts four interrelated questions: Why were reform initiatives paused at exactly the moment that diversified, non-oil economic growth was so desperately needed in Saudi Arabia and Nigeria, only to be restarted once the oil price began to rebound? What does this start–stop–start pattern of reforms tell us about the relationship between the state and the various members of the private sector within these two major oil-producing economies in the contemporary era? How did this relationship develop over the preceding decades? And what does this relationship mean amid a potential transition to a less hydrocarbon-intensive global economy?

In pursuit of answers to these questions, this book provides a historically grounded analysis of the contemporary political dynamics that shape the creation and implementation of company creation regulations in the twenty-first century in Nigeria and Saudi Arabia. In doing so, it offers a unique contribution to a large academic literature that, over the past fifty years, has explored the relationship between oil wealth and economic prosperity, democratization, and regime survival. Pioneered by Mahdavy (1970), Beblawi and Luciani (1987), and later Ross (2001), this literature details the seemingly deleterious effects of oil wealth on economic and democratic outcomes through what is commonly termed the 'resource curse.' Using larger datasets and controlling for a richer set of covariates, influential studies such as Herb (2005), Dunning (2008), Haber and Menaldo (2011), and Menaldo (2016) offer a rebuke of these findings through the identification of a so-called resource blessing, in which natural resource wealth is either beneficial or benign for democratic and economic outcomes.[1]

One aspect of the resource curse literature that has so far avoided extensive scrutiny is the relationship between oil wealth and the regulation of private enterprise. Studies such as Amin and Djankov (2009), BenYishay and Grosjean (2014), and Mazaheri (2014, 2016) argue that natural resource wealth is positively associated with the imposition of regulation upon private enterprise, or the relative absence of its repeal. In particular, by employing a variety of multivariate regressions, Mazaheri (2016, 28–32) assesses that oil income is positively associated with the regulation of company creation in major oil-producing economies. This pattern mirrors Desai, Olofsgård, and Yousef's (2009) identification of an inverse relationship between social and political restrictions and authoritarian fiscal flows.

THE ARGUMENT

In this book I chart a unique departure from the received wisdom of the resource curse and thus contribute to our understanding of natural resource politics in the Global South in four distinct but interrelated ways. First, by approaching the regulation of company creation from a more comprehensive, entrepreneurial perspective, and incorporating the varying procedural hurdles, financial costs, and legal restrictions on company creation, I demonstrate that liberalization generally proceeds when natural resource rents are rising or high, and stalls when rents are falling or low. During the first two decades of the twenty-first century, I show that the cases of Nigeria and Saudi Arabia individually defy the existing resource curse literature's predictions of private sector regulation during oil booms and liberalization during busts. Whereas earlier quantitative studies assume regulatory barriers to company creation to be discrete, homogenously implemented, fungible units, this book methodologically accounts for the true breadth of *what* hurdles the state imposes on formal company formation.

Second, I outline *why* this pattern occurs within these two prominent cases. Like most major oil-producing countries in the Global South, Saudi Arabia and Nigeria are not liberal democracies. Saudi Arabia has been united under a single absolute monarchy for ninety years, while Nigeria's contemporary hybrid democracy remains profoundly shaped by the country's military rule in the periods 1966–79 and 1983–99.[2] Although political elites in oil-wealthy,

[1] For a comprehensive survey of the resource curse and resource blessing literatures, see Chapter 1.
[2] For example, at the time of writing, former military rulers have held the position of president of the federal republic for just under half of the post-military era.

autocratic, or hybrid regimes have a general preference for economic growth and prosperity over stagnation, their elite business peers closely guard the coveted economic privileges, exemptions, protections, and inflated contracts that give them an advantage over their competitors.[3] This book outlines how market liberalization, such as reforms to facilitate company creation, is often paired with compensatory public contracts, licenses, or subsidies to mollify incumbent business elites, as well as public welfare and military spending to placate non-elite citizens.[4] In other words, oil rents grease the wheels of domestic economic liberalization by buying both elite and non-elite acquiescence. Consequently, during periods of low or falling oil rents, when oil-funded compensation, welfare, or repression is infeasible, reforms to facilitate the creation of new companies are also paused. I term this the rent-conditional reform (RCR) theory. Focusing on the regulation of company creation, this book sheds unique light on the relationship between the state, economic elites, and the non-elite private sector within Nigeria and Saudi Arabia.

Third, as a point of comparison, I detail *how* the RCR theory follows different causal processes within the two cases before, during, and after the 2014–16 oil downturn.[5] In the case of Nigeria, I demonstrate that corporate regulation was belatedly politicized during the 1980s under the military regime of Ibrahim Babangida. Borrowing from the conceptual toolbox of American politics,[6]

[3] The interest of business elites mirrors that of 'special interest groups.' According to Olson (1982, 42), special interest groups in principle might want both to expand 'the pie society produces' and to capture a larger slice of it for their parochial interests, but will preference the latter.

[4] This book frequently engages the theory of economic rents, which is conceptually distinct from the common-parlance meaning of a payment to a landlord for the use of land. David Ricardo (1817, 57) defines economic rents as "the difference between the produce obtained by the employment of two equal quantities of capital and labour." This is acutely evident in the oil-wealthy countries of the Middle East, where Mahdavi (1970, 429) observes that "the [high] oil revenues received by the governments of the oil exporting countries have very little to do with the production processes of their domestic economies. The inputs from the local economies – other than the raw materials – are insignificant." Though scarcity is a common and salient theme, natural resource rents are distinct from the rents accrued through regulatory capture or fiscal patronage, which are discussed further in Chapter 1. Moreover, for our purposes, natural resource rents typically accrue to the state through state-owned oil or resource companies or taxation. Regulatory or fiscal rents typically accrue to private interests. A practical overlap exists between natural resource rents and regulatory or fiscal rents in many cases, where the former fund the latter.

[5] The term causal mechanism has been saddled with an array of (sometimes contradictory) characteristics (Gerring 2010, 1500–1). In pursuit of clarity, Brady and Collier (2010, 270) define causal mechanism as "a link or connection in a causal process," and causal process as "a sequence of events or steps through which causation occurs." I thus use the term 'causal process' to describe the different causal relationships that link cyclical variation in the oil market (independent variable) and the liberalization of regulations that govern company creation (dependent variable).

[6] Earlier pursuits of conceptual cross-pollination from American to Nigerian politics are evident in the work of LeVan (2015).

I forge a theory of professional interest groups in Nigerian politics to explain how cross-class, cross-regional, industry-based groups interact within the drafting and administration of corporate regulation.[7] Informed by the nature and activities of interest groups in Nigeria, I apply the RCR theory to the Nigerian case during the first two decades of the twenty-first century to illustrate how a crisis of elite cohesion temporarily derailed the company creation reform drive. However, in the case of Saudi Arabia, corporate regulation was politicized very early in the twentieth century through tensions over legal institutions within the Al Saud's alliance with the Wahhabi clerics. After decades of intraelite competition and contestation, it was only in the early 1990s that non-elites gained a greater influence in the politics of corporate regulation in a period of reformist pressure upon the Al Saud regime. This reformist pressure did not abate in the 1990s but rather culminated in local manifestations of the 2011 Arab Spring. With a mollified elite class, it was rather the recent memory of the Arab Spring, and the continued non-elite pressure upon the regime, that temporarily derailed the company creation reform agenda in Saudi Arabia during the 2014–16 oil downturn. Side by side, the diversity of causal processes within these cases illustrates the history and future potential of an RCR theory for explaining more broadly the politics of economic liberalization in resource-wealthy countries.

Fourth, by exploring the future applicability of the RCR theory amid a transition towards a less hydrocarbon-intense global economy, I question *which* contexts will continue to see cyclical bouts of economic liberalization. Continuing the comparison of the two case countries, I draw a distinction between the national-level, projected average cost of oil extraction in major producing countries, which is among the lowest in Saudi Arabia and among the highest in Nigeria. In a context of relatively lesser oil demand, countries like

[7] Throughout this book I use the terms 'businesses' and 'companies,' 'corporate regulation,' and 'company creation regulation.' For our purposes, businesses and companies are interchangeable terms for commercial enterprises that are recognized as legitimate by the state. As will be explored, the enjoyment of non-natural personhood by a business or company is not assumed across all contexts. In this context, corporate regulation refers to the laws and policies that govern business and non-profit entities, including their creation and the design of the judicial system that adjudicates legal conflicts involving them. At its broadest level, the academic study of corporate regulation inherently includes the definitions of business structures that are not non-natural legal entities; delineating the boundaries of non-natural legal personality or personhood and defining the prerequisites for its adoption are fundamentally 'corporate' questions, especially when those boundaries and prerequisites evolve over time. The definition of informal businesses and routes to formality similarly have a place under this academic umbrella. For our purposes, this approach to corporate regulation does not include the rules of commercial transactions, but *does* include the regulation of the state's recognition of companies and businesses for judicial purposes because business or company structures are effectively meaningless unless they are recognized by the courts. Business or company creation regulation, as a subset of this broad understanding of corporate regulation, concerns the laws and government policies that govern the creation of formal businesses – both those with non-natural legal personhood or otherwise.

Saudi Arabia will continue to face the peaks and troughs of the commodity markets, their associated volatile rents, and the cyclical ability to liberalize their economies along the lines of the RCR theory. Alternatively, high-cost producers such as Nigeria will be priced out of the smaller global oil market and will thus be constrained in their ability to enjoy boom periods. Without the rents needed to make reform feasible, Nigeria faces regulatory stasis. I further extend the comparison to mineral-producing countries that stand to enjoy greater rents associated with a projected boom in demand for the resources necessary to generate, store, and transport renewable energy. Within these contexts, the RCR theory may offer insights into their future reform trajectories.

This introductory chapter proceeds as follows: Section I provides further details on the history of private sector-led economic diversification in Nigeria and Saudi Arabia since the early twentieth century. It also outlines the practical and theoretical merits of exploring the politics of company creation regulations within these contexts. Section II presents two hypotheses to explain the evidenced pattern of reform within the cases. Section III explains the rationale for a longitudinal, qualitative, within-, and cross-case methodology and the data collection process. The final section previews the structure of the book.

I OIL TITANS

Saudi Arabia and Nigeria constitute curious cases for further study because the pattern of company creation liberalization within both cases defies the predictions of recent studies in the resource curse literature. The coinciding recommitment to private sector growth in May 2007 was neither the first nor the last such initiative during the 2000–2014 commodity super cycle. Rather, as will be illustrated across the following chapters, a common pattern of company creation regulatory liberalization during high or rising rent periods, and a pause during a low or falling rent period, is evident in both cases. With the use of Gerring's (2017, 74) terminology, Nigeria and Saudi Arabia are thus exploratory, deviant cases that merit examination because they defy these predictions.

Moreover, the rationale for considering Nigeria and Saudi Arabia is also drawn from their preeminent positions among contemporary oil producers. As the largest oil producers in Africa and the Middle East, respectively, Nigeria and Saudi Arabia are intuitive cases with which to probe the limits of a 'resource curse' or 'resource blessing.' Long-established members of the Organization of the Petroleum Exporting Countries (OPEC), these two countries are often associated in academic and popular literature with oil wealth, its opportunities, and challenges. Having engaged in state-building during the twentieth century, pursued bouts of state-led economic development, and endured a protracted history of autocratic rule, Nigeria and Saudi Arabia share the hallmarks of archetypal 'petro-states' in the Global South. Moreover, distinct from their oil-producing neighbors, Nigeria and Saudi Arabia are regionally influential prominent cases. Together, they thus provide a high benchmark; any theory that proclaims to explain an element of the political economy of oil wealth should naturally fit these two obvious cases. Failing to do so would risk tailoring a theory to the margins.

The Giant of Africa

The opportunity and impetus for diversified economic growth are evident in the staggering statistics of Nigerian economic development. With a population somewhere north of 200 million people, Nigeria's poverty rate is officially estimated to be around 40 percent (NBS 2020, 6). This is a very conservative estimate.[8] Contemporary labor statistics offer little comfort. The national unemployment rate sat at 33.28 percent in the final quarter of 2020, up from roughly 23 percent in 2018.[9] At a subnational level, the picture is even more dire. In late 2020, the labor force participation rate in a state such as Yobe was only 27.35 percent, and among that population, 52.57 percent were unemployed. While detailed data is wanting, in 2019 approximately 8.6 percent of employed Nigerians were working in the public sector.[10] In short, Africa's most populous nation needs more than oil to support its population.

Since the colonial era, economic development in Nigeria has been shaped by: the state's exploitation of natural resource rents to finance development; predation upon the public purse by elites; and the entrepreneurship of its citizenry. Prior to the discovery of oil in 1956 at Oloibiri, monopsonistic commodity boards were the focal point of this tension. Under the guise of providing income stability for private farmers, the state's commodity boards accumulated surplus profits, while entrepreneurial intermediaries were outlawed. These profits were subsequently used to fund public works and infrastructure (Bauer 1954; Osuala 1970; Adegeye 1979), thereby making natural resource rents a tool of economic development. Once devolved to the subnational regional level in the late colonial period, the marketing boards also served as proximate sources of generous capital for politically connected private businesses and political campaigns (Helleiner 1964; Williams 1985).

Although the source of the state's natural resource revenue changed in the oil era, the dynamic between these forces endured. Moreover, as the scale of the available rents rose, so too did ambitions for development, private entrepreneurship, and predation. The apex of the state's developmental aspirations is encapsulated within the Third National Development Plan (1975–80), which was ten times larger than its immediate predecessor, and facilitated "the most

8 Rather, 40.1 percent of the population lives on around US$1 per day, which is almost half of the $1.90 international poverty line. The Nigerian Bureau of Statistics' estimates exclude the Boko Haram insurgency-ravaged areas of Borno state. The rate of poverty can thus safely be assumed to be higher than the official figure.

9 Data from the Nigerian Bureau of Statistics.

10 See the International Labor Organization's *General Household Survey of Nigeria* (2019).

assertive phase of state-led development in Nigeria's postcolonial experience" (Lewis 2007, 146). Even during the heady rush of oil rents in the 1970s, when bureaucrats were assessed by how quickly they could spend federal funds (Schatz 1977, 49–50), economic diversification and the development of the private sector sat firmly within focus. The Third Plan listed the economic diversification of the country as an explicit priority (Central Planning Office 1975, 29) and projected that the vibrant domestic private sector would make investments in agriculture, building and construction, and distribution to either rival or supersede its public counterpart (Lewis 1977, 75). However, the state-building process and oil-funded expenditure of the 1970s did not escape elite predation. Those who enjoyed proximity to the federal military regime could accrue fabulous wealth. Among other sleights of hand, economic privileges were granted through positions as middlemen for public procurement (Turner 1976); directorships within newly created state-owned enterprises (Ikpe 2000, 153); inflating contracts for the construction of the new capital, Abuja (Moore 1984); providing limited import and export licenses (Joseph 1987, 56); and gaining ownership of profitable companies through the indigenization decrees of 1972 and 1977 (Graf 1983, 134). A combination of limited oversight, the expansion of postwar construction projects, and rising oil rents meant that "any dividing line between public and private disappeared" (Joseph 1987, 73).

The oil booms of the 1970s served to consolidate the modern Nigerian state through the dispersion of seemingly endless oil rents, particularly in the wake of the Nigerian Civil War (1967–70). In addition to the oftentimes tension between the state, elite economic actors, and non-elite entrepreneurs, Nigeria similarly endured division along ethnic, social, regional, and religious lines, with each group seeking to defend their share of power and resources. As oil rents began to fall in the 1980s, the unsustainability of the oil-funded development model became evident. Consequently, in 1986, Military President Ibrahim Babangida initiated his neoliberal reform agenda, known as the structural adjustment program (SAP). Through the SAP, it became apparent that Nigeria's system of corporate regulation was woefully unprepared if the private sector were to become the country's engine of economic growth. Formerly an overlooked and dormant corner of law, corporate regulation under Babangida became intensely politicized, and once hauled into the public arena for reform, it became the coveted prize of influence campaigns among Nigeria's diversified industries.

While Nigeria returned to civilian rule in 1999, the tensions between the interests of the state, non-elite entrepreneurs, and elite economic actors continued. As the hegemonic 'big-tent' party, the Peoples Democratic Party (PDP) largely pledged fidelity to Babangida's platform of neoliberal-inspired, private sector-led, non-oil diversification throughout the oil market's peaks and troughs. Under this mantle, corporate regulation remained both economically and politically relevant in the Nigerian federal arena. The consensus on the need for private sector-led, non-oil economic diversification among Nigeria's

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elite class was so profound that even Muhammadu Buhari, the long-time presidential candidate of the rival All Progressives Congress (APC), pledged his allegiance on the 2015 campaign trail. Although President Goodluck Jonathan (2010–15) initially pursued this agenda with vigor throughout his tenure, momentum gradually lost steam as the price of oil plunged and the March 2015 election loomed. Despite Buhari's eventual success in the 2015 election, he too maintained his predecessor's unspoken moratorium on company creation facilitation until the oil market began its rebound in early 2016.

Princes of the Peninsula

With a smaller population and larger oil wealth than Nigeria – both realized and potential – Saudi Arabia's economic challenges are of a different nature. In the first quarter of 2021, the overall unemployment rate was 11.7 percent for Saudi citizens, which was below the pre-pandemic level (GAS 2021). The labor force participation rate during this period was 49.5 percent, above the pre-pandemic level. Despite Saudi Arabia's higher per-capita wealth, a closer look at *where* Saudis are working reveals the country's unique challenges. In 2020, approximately 41.3 percent of the Saudi workforce was employed in the public sector.[11] Approaching this distortion from a different perspective, the ratio of Saudis to foreign citizen workers in the private sector is roughly 1:4. Despite decades of abundant oil wealth, a non-trivial portion of the Saudi workforce remains reliant upon the public purse.

While most Saudi workers identify themselves as members of the public or private sectors, the distinction has historically been somewhat blurred for elite entrepreneurs. This overlap can be attributed to the state-building efforts of Ibn Saud,[12] who formed the unified Kingdom of Saudi Arabia in 1932. In the pre-oil era, traders and the regent enjoyed a fiscal social contract: Traders and their commerce, particularly in the Hejaz, enjoyed physical protection from the ruler, in exchange for taxation (Herb 1999, 57). The discovery of commercial quantities of oil in 1938 in the Eastern Province decisively shifted that relationship. Using the state's growing financial resources, Ibn Saud forged a web of patronage to provide employment, welfare, and housing for tribal leaders, merchants, and the clerical establishment (*ulama*). The objective was, as Kechichian (2013, 111) notes, not simply to buy loyalty but to develop allegiance to and dependence upon the Saudi state. The Saudi regime lacked an elaborate central government and resembled more a collection of royal family members, tribal figures, and the *ulama* (Kostiner and Teitelbaum 2000, 133). It was only on Abdulaziz' deathbed that the king established a formal cabinet (Herb 1999, 92).

11 Data from the Saudi Arabian Monetary Authority's (SAMA) Yearly Statistics, 2020.
12 King Abdulaziz bin Abdul Rahman Al Saud of Saudi Arabia (r. 1932–53).

While oil rents proved to be an expeditious tool in Ibn Saud's elite political maneuvering, the growing oil industry and its riches also affected the lives of ordinary Saudis. Between 1960 and 1980, the country's civil service boomed from 62,000 to 360,000 employees (Kostiner and Teitelbaum 2000, 135). The newly created Public Investment Fund plowed the country's booming oil rents into infrastructural development (McPherson-Smith 2021a), fostering a publicly dependent construction bonanza (Abbas 2013). Much like the country's disparate elite constituencies, select groups also benefited from targeted economic patronage. King Khalid bin Abdulaziz (r. 1975–82), for example, offered strategic economic benefits to nomadic Bedouin through direct cash transfers, as well as loans from government banks that were not expected to be repaid (Cole 1981, 131–9). Moreover, Bedouin were disproportionately recruited into the National Guard and constituted the majority of its troops.

As oil rents rose and the state expanded, so too did the class of royal-adjacent elite entrepreneurs. These elites were drawn from both the traditional merchant class, such as the Al-Gosaibi clan, and the lesser royalty. Under King Faisal bin Abdulaziz (r. 1964–75), the formation of twenty separate ministries expanded the influence of the monarchy into every aspect of life within the kingdom. While Faisal placed his allies and loyalists in key bureaucratic positions, those who were displaced or overlooked took refuge in the private sector (Al-Rasheed 2010, 122). This new class of entrepreneurs leveraged their social and political capital to acquire lucrative contracts from the state while solidifying their own position in the hierarchy (Samore 1983, 309). Entrepreneurs who secured supply contracts for the country's premier oil company, Aramco,[13] also saw their fortunes rise, yielding contemporary conglomerates such as the Tamimi Group, the Abdalla Fouad Group, and the Olayan Group (McMurray 2011, 181–2).

The Saudi regime's recognition of the need for economic diversification, while also supporting private enterprise, is evidenced by the country's first formal development plan (1970–75) (CPO 1970, 21) and its successors. However, the push to reform the state to facilitate these objectives was only embraced during the first years of the new millennium. To join the World Trade Organization in 2005, King Fahd bin Abdulaziz and Crown Prince Abdullah bin Abdulaziz oversaw the most comprehensive economic reform in the kingdom since the 1970s state-building era. Within the Saudi absolute monarchy, opposition to these reforms did not come from civil society but rather from princes, their business allies, and their entrenched bureaucratic 'fiefdoms' (Hertog 2011).

Despite this opposition, Abdullah's reform efforts continued even once Saudi Arabia's membership in the WTO was secure. The Al Saud's fervor for diversified economic growth, however, was nowhere to be seen once oil prices began

[13] The Saudi government gradually nationalized Aramco throughout the 1970s.