

Three Thoughts on the Political Resource Curse

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Two types of resource curse

▶ Economic

- Lower growth

- ▶ Dutch Disease
- ▶ Volatility
- ▶ Less investment in education
- ▶ Corruption

▶ Political

- Dictatorships
- Civil conflict

First and second thoughts

- ▶ 1. The effects of natural resources are contingent on the social and economic environment
 - Important to begin by highlighting this, because a “curse” implies that nothing that can be done
 - There *is* room for policy response on these issues
 - This leads to second thought:
- ▶ 2. Understanding that environment is essential to predicting effects and making policy recommendations

Example: Dictatorships

- ▶ *Public Choice*, June 2007
- ▶ Causal mechanisms linking resources and dictatorships vary
- ▶ Two important ones
 - Taxation/accountability
 - Repression
 - Policy implication: Take revenues out of the hands of government and into hands of citizens

Another mechanism: redistribution

- ▶ Long line of scholars studying political transitions have focused on inequality and redistribution
 - In this framework, dissatisfaction with inequality and redistribution lead to unrest against elites
 - Democratization essentially is a way to buy off parts of the electorate who are unhappy
- ▶ Various scholars in this tradition
 - B. Moore, Bourguignon, Acemoglu and Robinson
 - Azam

Same policy instrument

- ▶ Take the same policy instrument and consider it in this theoretical framework
- ▶ If it works well, it essentially creates the credible means of redistribution, and therefore diminishes pressures for democratization
- ▶ Exactly opposite result

Implications

- ▶ The importance of understanding the relevant dynamics in each country
 - In order to predict effect of natural resource arrangement
- ▶ Effect of revenues is contingent on their environment
 - Universal prescriptions unlikely to be helpful
 - Careful political analysis is necessary before making recommendations

Final point

- ▶ 3. May be similarities between foreign aid and resource rents
 - Both highly fungible windfall resources
- ▶ But policy debates in different directions
 - Resource conditionalities versus aid selectivity
- ▶ In a dictatorship, it's possible that *any* use of rents (with whatever mechanism) will stabilize regime
 - May consider selectivity in helping countries to use resources

Summary

1. Resource “curse” an unfortunate term: effects contingent on social and economic environment
2. Because of this, universal recommendations unlikely to be helpful
 - ▶ We need to understand this environment before making recommendations
3. Lessons from foreign aid may be relevant with regard to selectivity