

## Research Summary 21- The Political Economy of the Resource Curse: A Literature Survey

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### Introduction

This paper evaluates the literature on the “resource curse,” a concept which emerged in the late 1980s alleging that natural resource abundance leads to a host of negative economic, political, and social outcomes. This theory, which directly opposed the prior conventional wisdom that natural resources were good for development, has now been adopted as the new orthodoxy and is espoused by such bodies as the World Bank and International Monetary Fund (IMF).

The scholarly literature on the resource curse has attempted to address its validity, causes, and potential solutions. There are, however, four main shortfalls of the literature: first, while it offers considerable evidence in favour of the resource curse, this evidence is far from conclusive; second, the explanations it offers do not give sufficient attention to social or external factors; third, the literature’s recommendations for overcoming the resource curse generally fail to account for political feasibility; and finally, researchers have been overly reductionist in explaining development purely in terms of resource endowments. This paper asserts that instead of asking why natural resource wealth has led to undesirable outcomes, scholars should ask what contextual political and social factors shape whether countries use natural resources for development or for more nefarious purposes.

### Are Natural Resources Bad for Development?

There are three sub-literatures which present the deleterious effects natural resources can have on development. First, comparative cross-country studies on economic performance have shown that an abundance of natural resources, especially particular resources such as minerals and oil, can lead to undesirable economic consequences, such as slow or negative economic growth, inflation, low savings, high unemployment, export earnings instability, corruption, poverty, and low levels of human development. Explanations for why the resource curse inhibits economic performance can be broken down into seven categories. First, economic explanations focus on the economic ramifications of natural resource wealth—such as Dutch Disease, the potential for declining terms of trade, and revenue volatility—though many of these explanations have been empirically discredited over time. Behaviouralist perspectives assert that natural resource abundance can lead to emotional or irrational behaviour on the part of political elites, which fosters poor resource management. Rational actor perspectives point to the problems caused by rent-seeking political actors in contexts of resource wealth. State-centred theories propose that states which rely on “unearned” income avoid developing sound economic policies or public accountability by relying on rent-distribution politics. Historico-structuralist perspectives argue that natural resources can empower elites which then influence government policies in their favour against other social groups. Finally, the social capital perspective proposes that natural resources create social tensions between those who have access to the resources and those who do not, which prevents societal cooperation and enables powerful vested interests to dominate.

While there is considerable empirical evidence that natural resource wealth leads to poor economic performance, there is still cause for skepticism given the sensitivity of such studies to variable operationalisations and the existence of evidence showing opposite effects, namely that natural resource wealth may have neutral or even beneficial effects on development, particularly with regards to social indicators (which casts doubt on whether economic performance alone is the proper gauge of development success).

Second, scholars have also looked at the link between natural resources and civil war, and have found statistical evidence that natural resource abundance may increase the onset, duration, and intensity of civil war. Some scholars argue that natural resources exacerbate grievances which lead to war while others stress that resources can fund rebel activities to enable and lengthen wars as well as give

parties an incentive to continue fighting. In these cases, the concentration and “lootability” of the resources can influence the type of war which takes place. Other scholars focus on the state role, namely how natural resources encourage the development of predatory states which, in turn, provoke civil wars. Some scholars also look to the international dimension and see civil wars as the result of competition between rich states for scarce resources.

The evidence linking natural resource wealth with civil war is far from conclusive, however, as various studies show disparate and sometimes contradictory results with regards to the effect of different natural resources on conflict frequency, duration, and intensity. For example, regression analyses have shown that civil wars may be less likely with very high levels of natural resource exports, that natural resources may not have any impact on the incidence of ethnic conflicts, and that natural resource abundance may not be correlated with conflict intensity. In addition, these findings have shown themselves to be sensitive to the choice of dataset as well as to the particular natural resources under investigation.

Finally, the resource curse is also connected with political regime types, with many cross-country analyses showing that resource rich countries are less likely to be democratic, especially in the cases of oil and mineral wealth. Scholars explain this phenomenon in a variety of ways. Some argue that resource rich states are more likely to be authoritarian because they can stem pressures for democratization through government spending or increased securitizing. Alternatively, because resource rich states can use resource wealth to consolidate their position, some scholars maintain that this encourages opposition groups to use extra-constitutional means to gain power, facilitating a cycle of authoritarian rule. A final set of theories suggests that countries with resource abundance fail to democratize because their societies are less likely to achieve high levels of education or occupational specialization, allowing authoritarian systems to persist unhampered by social pressures.

In addition to the empirical issues mentioned above, the resource curse literature has other general problems. First, the literature shows many correlations but does not prove causation, and the causal chain could conceivably run the other way; perhaps civil wars or underdevelopment force countries to become dependent on their natural resource sector. The correlation could also be spurious, with some unidentified third variable being the root cause of both natural resource dependence and undesirable development outcomes.

Second, the literature suffers from some important gaps. The role of social forces is largely neglected, which is a major oversight given that citizen pressures impact even resource rich countries and that contextual and historical social patterns fundamentally shape the functioning of state institutions. The literature also fails to adequately account for external contextual factors beyond the overly-simplistic precepts of dependency theorists. External forces can both hinder and facilitate development in resource rich countries, Southeast Asia being a prominent example of success, and it is important to look at geo-strategic and geo-economic environments in assessing how natural resource wealth will affect development given the external context. Both social forces and external factors can be of critical importance in understanding why some resource rich countries are prone to bad developmental outcomes while others are not.

Finally, the literature on the resource curse tends to be overly deterministic in attributing economic performance, civil wars, and political regime types to resource endowments alone. This ignores the substantial variation among resource rich countries and the factors which enable some resource abundant countries to overcome the resource curse.

### **How Can the Resource Curse be Overcome?**

Recommendations in the literature on how to overcome the resource curse include economic policy changes, mainly macroeconomic stabilization, as well as broader political and social changes focused on shifting the mindset of political elites and reducing political and social dependency on resources. Professionalizing the civil service or building social capital, for example, can help countries learn to function without relying on resource wealth. Some concrete suggestions in the literature include redistribution of resource wealth to citizens and privatization of natural resource sectors. Finally, some scholars recommend that international action should be taken to help resource abundant countries to overcome the resource curse, such as measures to reduce price instability and revenue volatility. Many of these recommendations fail to address questions of political feasibility, however. The dynamics underpinning the resource curse must be more thoroughly investigated to understand how to trigger the required policy, behavioural, institutional, or social changes necessary to overcome it in a pragmatic and realistic manner.