

PSCI 4012

Global Development

Resource Curse

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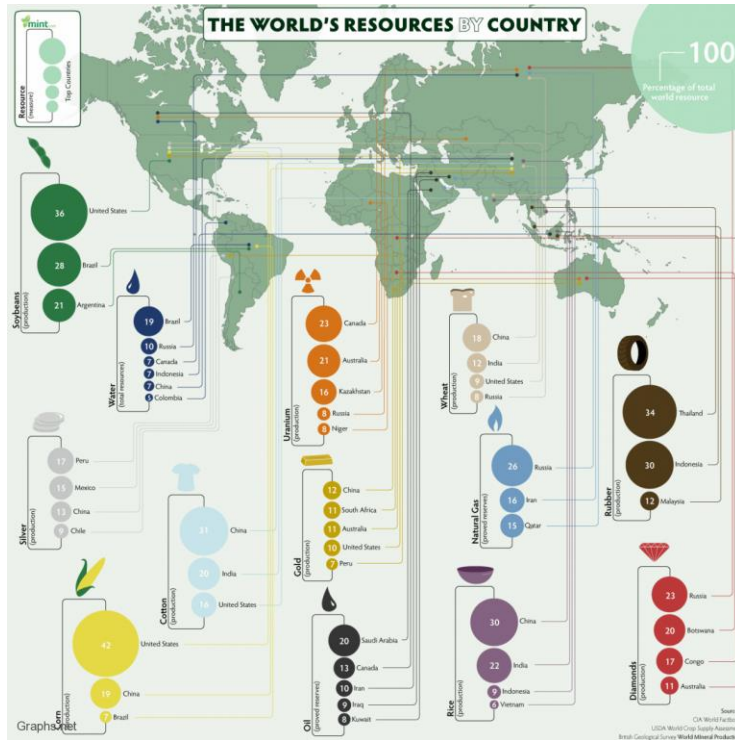
Today's Plan

- Natural resource abundance and economic growth
- Resource curse
- Mitigation strategies

Natural Resources and Development

- An economy's production is a function of physical capital, natural resources, human capital, financial capital and productivity
- Does more natural resources always mean greater overall production?

Natural Resources and Development

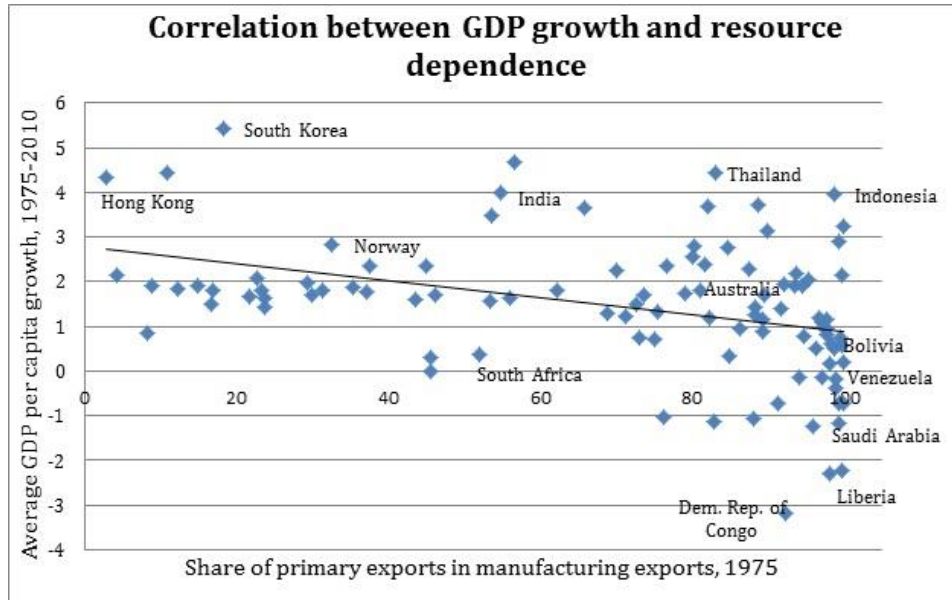


Resource Curse

Resource curses

- Too much natural resource wealth might be harmful for long-term economic growth
- Too much natural resource wealth might be harmful for political development
- Too much resource wealth might lead to more violent conflict

Resource Curse



Resource Curse

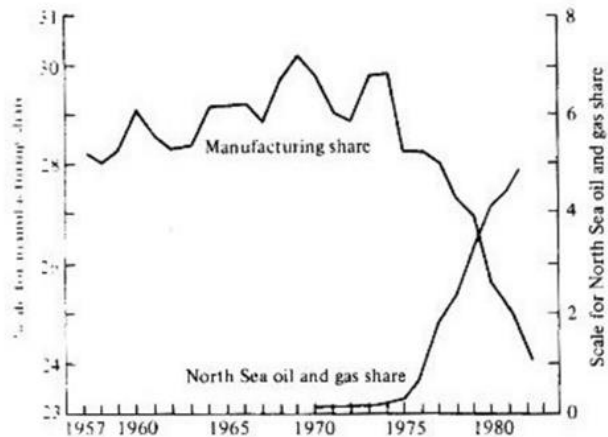
- Why are some natural resources negatively related to long-term economic growth?
 - The old answer: Machiavelli, Bodin and Montesquieu argue that when countries have favorable resource endowments, their citizens become myopic and slothful
 - The newer answer: Some natural resources –oil and diamond in particular – are harmful for economic growth, because they disincentivize investment in more productive industries

Resource Curse

- The Dutch Disease:
 - Natural resource exports leads to appreciation of currency
 - Appreciated currency makes other industries less competitive in the international markets and incentivizes imports
 - While a country's natural resource exports and revenue increases, its exports in other industries dramatically decreases and imports dramatically increases

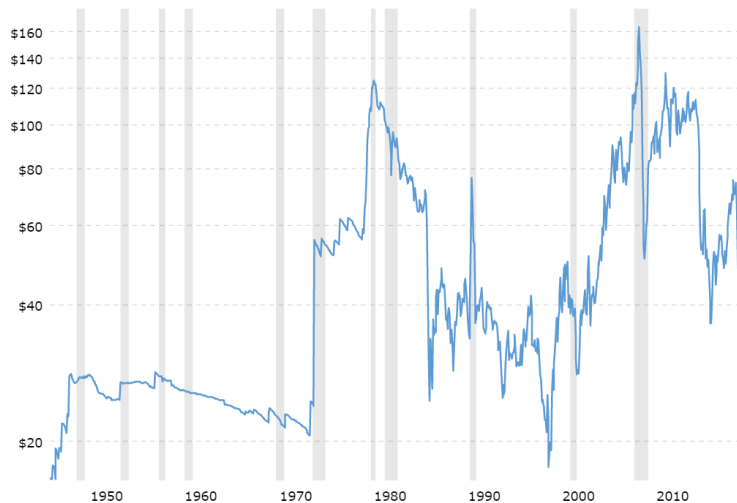
Resource Curse

UK Experiences De-industrialization as Oil Production Begins



Resource Curse

- Oil prices are very volatile and higher price volatility leads to higher growth volatility



Resource Curse

- “Governments funded by external rents were freed from the need to raise taxes, this made them less accountable to their citizens, and hence less likely to deploy these rents in ways that promoted economic development” (Ross, 2018)
- Discovery of large natural reserves – oil and diamond in particular – increases likelihood of violent conflict, which in return negatively affects economic activity

Resource Curse

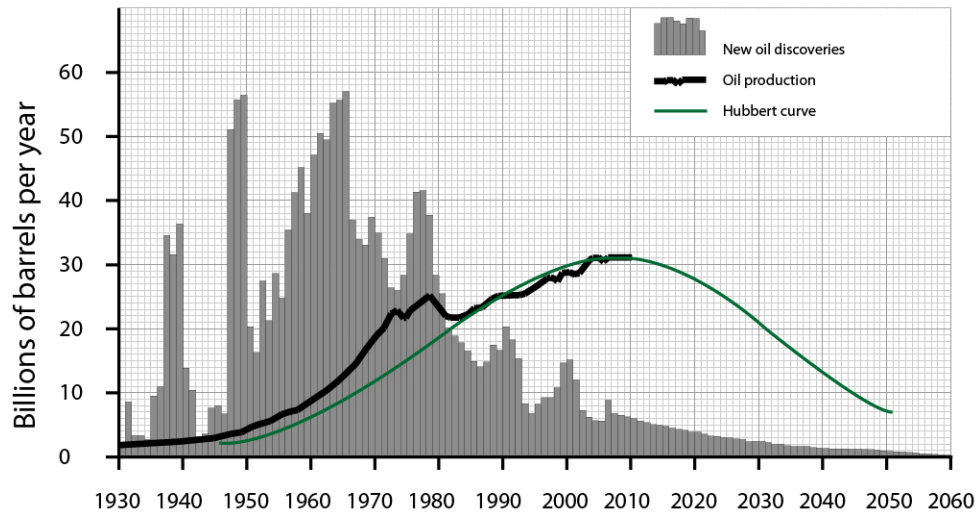


Resource Curse

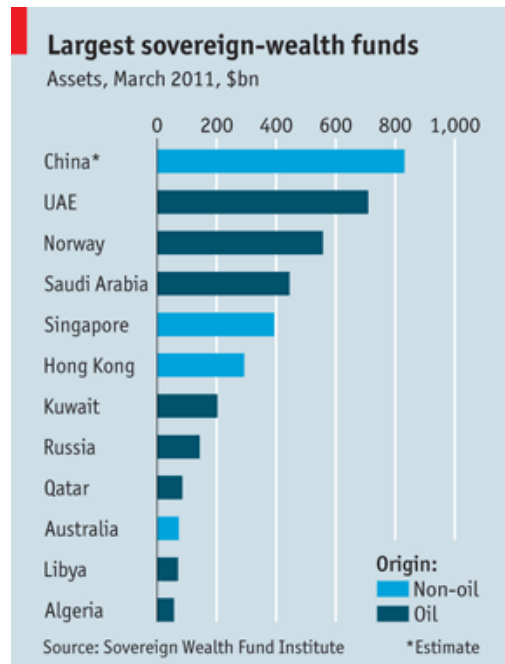
- Why oil wealth does not cause resource curse in all cases?
 - “A state with weak institutions, upon receiving a positive fiscal shock, may suffer from a voracity effect in which powerful groups struggle for and squander the windfall” (Ross, 2018)

Mitigation Strategies

Global oil discoveries and production, 1930-2060



Mitigation Strategies



Source: The Economist