

The resource curse revisited and revised: A tale of paradoxes and red herrings

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Abstract

We critically evaluate the empirical basis for the so-called resource curse and find that, despite the topic's popularity in economics and political science research, this apparent paradox may be a red herring. The most commonly used measure of “resource abundance” can be more usefully interpreted as a proxy for “resource dependence”—endogenous to underlying structural factors. In multiple estimations that combine resource abundance and dependence, institutional, and constitutional variables, we find that (i) resource abundance, constitutions, and institutions determine resource dependence, (ii) resource dependence does not affect growth, and (iii) resource abundance positively affects growth and institutional quality.

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1. Introduction

Inspired by work of Sachs and Warner [48], a new literature has developed that focuses on the so-called “resource curse”—the puzzling paradox suggesting that resource-rich countries tend to grow more slowly than resource-poor ones. Like most people, economists are fond of paradoxes. It is therefore not surprising that the curse has inspired many economists to consider its origins or test its robustness. Among the popular early explanations for the curse are “structuralist” theories with roots in the 1950s [42], rent-seeking analyses (e.g. Ref. [52]), and stories based on Dutch-disease type of arguments, where the non-resource sector is the long-run engine of growth due to increasing returns at the sector level but becomes “crowded out” by the resource sector [32].¹

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¹See also Ref. [55] for a critical assessment of the claim that the resource sector is unlikely to yield spillover benefits.

The rough contours of a consensus view now seem to be gaining shape. In the words of a recent World Bank publication [22]:

[Natural resource exports] can damage institutions (including governance and the legal system) indirectly—by removing incentives to reform, improve infrastructure, or even establish a well-functioning tax bureaucracy—as well as directly—by provoking a fight to control resource rents. ... There is growing evidence that [this] effect is the most problematic.

Empirical support for this view is provided by various authors (e.g. Refs. [10,26,47]).² While resource abundance can be a blessing for countries with good institutions and a curse for countries with bad institutions [33], the new consensus view goes one step further. It argues that the institutional context itself is endogenous and not invariant with respect to resource endowments [27,44,50].³ While the exact definition of “institutional quality” is open to debate, most economists agree that it refers to the rules of the game, and that it is an important driver of economic development and growth [46].

In this paper we re-examine the consensus view that abundant resources lead to bad institutions or slow growth. We argue instead that causality may run the other way: that bad institutions are associated with high scores on a resource abundance indicator such as that popularized by Sachs and Warner. To appreciate our argument, it is important to understand that the common proxy for resource abundance in the literature on the curse is rather peculiar. It is defined as the ratio of resource exports to GDP, generally based on the information for a single year at the beginning of the observation period.⁴ This ratio is more appropriately thought of as a measure of dependence (or intensity) than as a measure of abundance. The denominator explicitly measures the magnitude of other activities in the economy. Consequently, the scaling exercise—dividing by the size of the economy—implies that the ratio variable is not independent of economic policies and the institutions that produce them. Moreover, not only the scale of economic activity, but also the comparative advantage in non-resource sectors is to a large extent determined by government choices [12]. Hence, the resource dependence ratio potentially suffers from endogeneity problems, and perhaps should not be treated as an exogenous explanatory variable at all in growth regressions [55]. A better measure of resource abundance would reflect resource stocks, as opposed to current economic flows derived from them, and we examine several stock-based measures in this paper.

We distinguish between two different perspectives on institutions. Some analysts interpret institutions as “deep and durable” characteristics of societies [19], whereas others view them as the reflection of policy outcomes that are in a state of flux [46]. The former interpretation is consistent with the idea of institutions as persistent constitutional variables—think of presidential systems versus parliamentary ones, or the specification of electoral rules. Within the framework of constitutional design, policy-makers formulate specific short-term “governance” policies to fight corruption, uphold the rule of law, invest in human capital for public servants, etc. Constitutional design therefore determines a range of policy outcomes—institutional proxies and otherwise [39,40]. Evidently, the interpretation of institutions as policy outcomes is more likely to suffer from endogeneity problems in the context of growth regressions.

Both the “durable constraints” and the “changeable policy outcome” interpretations of institutions are potentially relevant for the resource curse. Persson and Tabellini [39,40] have pioneered the notion that constitutional designs have observable consequences on economic policies. Key concepts in their analysis are accountability and representativeness of a country’s executive body. They find that both presidential regimes and majoritarian electoral rules (as opposed to parliamentary systems and proportional representation) tend to be associated with more spending for special interests, at the expense of public goods that benefit a wider

²This is not to argue that there are no “dissent” views: Ref. [31] focus their analysis on debt overhang, Ref. [38] focus on the role of investments, Refs. [8,21] on the role of human capital, and Ref. [23] on having a diversified export structure.

³In a model by Ref. [24], the link from resources to institutional deterioration is via conflict. For other work on the link between resources and conflict, refer to Ref. [13] and others.

⁴Several authors have used alternative measures of resource abundance, casting some doubts on the consistency and robustness of the curse. Results of Refs. [4,21,36] suggest that the overall growth curse remains, although Ref. [7] confine it to countries with bad institutions. Ref. [9] finds no curse evidence using World Bank resource data; Ref. [2] employ several measures of resource abundance, including hydrocarbon deposits per capita, and oil and mining outputs, and find no negative effects on income; while Ref. [51] considers several physical reserves and finds that the curse disappears for resources other than land—a result which in turn is challenged by Ref. [37].

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