The ‘Resource Curse’ Theory is Wrong

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In a recent policy analysis by the libertarian think tank Cato Institute, Peter Kaznacheev claimed that the oft-used academic theory of a “resource curse” is erroneous and mistaken. Kaznacheev is the director at the Centre for Resource Economics at the Russian Academy of National Economy and Public Administration and wrote the policy analysis for Cato.

Academics have long held that there is a “resource curse” on countries that rely on natural resources for revenue and providing services to their citizens. Meaning, if a country has oil resources, it often uses them inefficiently and the economy underperforms. The usual examples are the likes of Nigeria, which has an unstable government yet is rich in oil reserves, and the Netherlands when they first discovered North Sea oil deposits (the latter is often called the “Dutch disease” example).

Kaznacheev disputed this argument and pointed out that other factors influenced the perception of the “resource curse.” Kaznacheev pointed out that Jeffrey Sachs’ argument is based off of an analysis of a volatile time period known as the 1980s “oil glut.” Kaznacheev cited a study, which pointed out that the 1980s oil problems were created by the 1970s, where countries went on a borrowing spree that led to significant debt a decade later.

Also, Iran and Venezuela are examples of how academics proved the “resource curse.” Both have significant oil reserves and resources, yet underperform. Iran is a net gas importer, even when it has one of the larger oil and gas reserves in the world and is second to Russia. Venezuela also has large oil reserves, but has seen its real income per capita decline 25% over the last twenty years due to a socialist government (which Kaznacheev called “autocratic government”).

However, academics like Dr. Sachs, of the Earth Institute at Columbia, failed to account for institutional (i.e. government) instability and unreliability. Both Iran and Venezuela have autocratic government regimes and they play a large part in how underutilized their oil and gas reserves are.

Four main counter-examples of the “resource curse” theory are Australia, Chile, Canada, and Norway. All are rich in certain minerals and resources, but all experience, in the words of Kaznacheev, “high levels of social and economic development.” Although these four countries are currently adjusting to fluctuations in the global commodities market, they counter the "resource curse" narrative.

Australia currently ranks 18th in the world in highest GDP per capita and is one of the world leaders in economic freedom. Chile is one of the largest producers of copper and other natural resources, such as being the 5th largest supplier of silver and 13th in gold. Chile also ranks 10th in economic freedom. Canada ranks 9th in economic freedom and has the 17th-ranked highest GDP per capita. Norway is oil-rich and up to a quarter of their national income comes from gas and oil production, the largest in Europe, and ranks 6th in highest GDP per capita.

In short, strong, less-corrupt state government institutions reverse the "resource curse" and encourage economic growth and economic freedom.