Paradox or red herring?

The resource curse hype

By **Erwin Bulte**

I am the proud father of three little boys, and have the privilege to learn a bit about human nature as I watch them grow up. Currently the oldest two, aged 4 and 6, seem to have only one thing on their minds – Pokémon. For non-insiders, I am referring to artistically decorated paper cards featuring fantasy creatures with make-believe powers of destruction. Our kids go nowhere without their collection of precious cards, and neither do their friends. It is common to see groups of children sitting together, exchanging cards and commenting on each others' latest conquests. For them, Pokémon is real, and they are unaware of the fact that they are in the middle of an enormous hype.

Obviously, hypes are serious business, and not only for children. The entertainment and fashion industries would not be able to survive without them. Perhaps less obvious for most people is that political science is not immune to them either.

One of the more potent hypes in the domain of development has been the so-called resource curse hypothesis. This concerns the paradoxical finding that resource-rich countries appear to grow more slowly than resource-poor ones. Political scientists studying major oil exporters had hinted at the phenomenon before, but matters really got out of hand when Jeffrey Sachs and Andrew Warner unearthed the curse in a statistical analysis. Surely having more of a good thing cannot be bad. Or can it? Everyone likes a paradox, and researchers flocked to try to explain this puzzling phenomenon.

The snowball started rolling. Some researchers suggested an adverse relationship between resource abundance and democracy, and others did the same for resources and civil conflict. The World Bank and the International Monetary Fund became interested in the topic, and NGOs such as Save the Children and Oxfam started mentioning the curse in their communications with the public.

Flurry

A flurry of theoretical and empirical work followed. Gradually, some structure began to emerge, and the rough contours of a consensus view started to develop. I am editor of three economics journals, and many manuscripts cross my desk. I was able to observe the evolution of this microcosm from up close. Early analysts blamed the vagaries of the international markets for primary products, or the so-called 'Dutch disease'. Then a follow-up group pointed at rent seeking. Finally, the idea dawned that resource wealth might erode institutional quality. Resource wealth might trigger corruption and invite grabbing, or enable undemocratic autocrats to retain their grip on power.

This is of course a beautiful story. Moreover, it is believable, because we can all think of high-profile examples, such as Nigeria, Venezuela or the Democratic Republic of Congo. But of course there are counter-examples as well – think of Botswana, Norway or Malaysia. Now that the dust is settling, it is about time to ask whether the new consensus story is actually true.

The World Bank recently released a set of data on the resource wealth of a wide range of countries. Together with a PhD student, I played with these data and found the exact opposite of the standard curse result. Resource wealth is *positively* associated with both economic growth and institutional quality. How could that be? We then revisited the earlier papers, and it dawned on us that the resource abundance variable used in other studies is not measuring abundance at all. The Sachs–Warner resource measure is simply the ratio of primary exports divided by national income. But of course this is a measure of *dependence* (the extent to which a country is dependent on exports of resources) and not of *abundance* (which should be a stock variable).

On closer inspection we found that the causation is opposite to that usually claimed in the curse literature. There is no evidence that resource-dependent countries end up with slow growth and bad institutions. Rather, countries with bad institutions attract little investment, and as a result they grow more slowly and remain dependent on exports of commodities. But this is not a paradox at all.

It is hard to shake off the feeling that the curse literature has been barking up completely the wrong tree. In their rush to avoid being scooped, many good analysts have spent their valuable time chasing a red herring. A hype of Pokémon-like proportions, but infinitely more costly in terms of the real issues in development that have been left unaddressed. ■

Photo: HH/Magnum Photos

- C.N. Brunnschweiler and E.H. Bulte (2008) The resource curse revisited and revised: A tale of paradoxes and red herrings. To appear in *Journal of Environmental Economics and Management*.

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