

THE RESOURCE CURSE

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The Resource Curse

- The belief or hypothesis that natural resource wealth and its exploitation hinder rather than help economic growth in developing countries



Overview

- **Origins of the resource curse**
- **Current status**
- **Lessons**



Origins – Conventional View

- Rich resource deposits are assets
- Traditional production function
$$Q = f (K, L, N)$$
- So mining and resources create wealth and foster development



Origins – Early Contrary Views

- Prebisch Singer thesis (1950)
 - Declining terms of trade

$$TT = P_{\text{exports}} / P_{\text{imports}}$$

- Growth of demand
- Technology and costs



Origins – Early Contrary Views

- **Import substitution policies**
 - **Adopted by many LDCs in 1950s, 1960s, and 1970s**
 - **High tariffs, nationalizations**
 - **Generally disappointing results**
 - **Largely abandoned in 1980s**



Origins – Resource Curse

- **Empirical evidence**
 - **Case studies of individual developing countries (Auty, Gelb, and others in late 1980s and early 1990s)**
 - **Cross section studies of many countries (Sachs and Warner in the late 1990s and early 2000s)**



Origins – Search for Causes

- Declining terms of trade
- Volatile market prices
- Dutch disease
- Nature of mining
- Use of rents (profits)



Origins – Policy Prescriptions

- **A mystery in search of an explanation**
 - Sachs & Warner
- **Governments and World Bank should discourage mining in developing world**
 - NGOs (Oxfam)
 - Popular press (The Economist, Thomas Friedman)



Overview

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Resource Curse Critics

- **Empirical evidence**
 - Time period
 - Growth versus development
- **Possible Causes**
 - Declining terms of trade
 - Volatile markets
 - Dutch disease
 - Nature of mining
 - Use of rents (profits)



Current Status

- **Disagreement focuses largely on**
 - **Causes of resource curse**
 - **Impact of mining and resource extraction generally on growth**
 - **Policies discouraging resource exploitation in LDCs**



Current Status

- **Considerable agreement**
 - **Mineral deposits and other resources are assets**
 - **Mining and resource production have helped some countries**
 - **Mining and resource production have hurt some countries**



Overview

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Lesson 1

An Unresolved Mystery

- **Resource curse debate far from over**
- **Still much to learn about**
 - **Mining, resources, and development**
 - **Appropriate company and public policies**
- **The broader challenge: Understanding economic development in general**



Lesson 2

The Question Matters

- Should we encourage mining and resource production in developing countries? Assumes one answer fits all situations
- But mining can be good or bad



Lesson 2

Better Questions

- **Under what conditions should mining be encouraged? Discouraged?**
- **How can the benefits from mining for development be maximized?**
- **What exactly should the international community do when mining retards economic growth and development?**



Lesson 2

Search for Answers

- **Transparency and accountability**
- **Role of host government, mining companies, NGOs, and international community in setting standards and ensuring domestic benefits**
- **Imperfect or failed states**



Lesson 3

Importance of Academic Ideas

- **Prebisch Singer hypothesis and import substitution policies show**
 - **Public policies greatly affect mining**
 - **Economic beliefs and theories shape policy much more than recognized**



Lesson 3

Importance of Academic Ideas

- The perception that mining and resource production hurts economic growth—if it becomes accepted wisdom—will impact public policy
- The concern: As in the 1960s and 1970s, the benefits of resource production for developing countries could be lost or greatly reduced

Lesson 3

John Maynard Keynes

- The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else.



Lesson 3

John Maynard Keynes

- **Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.**



Lesson 3

John Maynard Keynes

- I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas Soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

John Maynard Keynes
The General Theory (1936)



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