

What Have We Learned About The Resource Curse?

Posted on October 12, 2022

Introduction

The “resource curse” describes a paradox: countries rich in oil, gas, or minerals sometimes experience weaker institutions, conflict, corruption, authoritarian durability, economic volatility, or disappointing development. The theory does not claim that natural resources automatically cause failure. Resource wealth can finance infrastructure, education, health care, savings, and economic diversification. The question is why similar assets produce very different outcomes across countries and periods. (International Monetary Fund, n.d.)

Michael Ross’s 2015 review, “What Have We Learned about the Resource Curse?,” organizes the evidence around three political effects of petroleum wealth: more durable authoritarian rule, particular forms of corruption and institutional weakness, and increased conflict risk in some low- and middle-income settings. It also examines challenges involving measurement, endogeneity, omitted variables, and causal mechanisms. This essay expands that review, distinguishes different meanings of resource abundance, and evaluates what later governance work suggests about preventing the curse. (Ross, 2015; Cust & Mihalyi, 2017)

Defining Resource Wealth

Researchers measure resources in several ways: proven reserves, production, export share, fiscal revenue, resource rents, or discoveries. These measures are not interchangeable. Large reserves may never be developed. High exports can reflect a small non-resource economy. Fiscal dependence may rise when commodity prices increase even if physical production is unchanged.

The distinction matters for causal analysis. If researchers divide oil revenue by gross domestic product, poor economic performance can mechanically make resource dependence look larger. This creates the possibility that low growth causes a high dependence measure rather than the reverse. Measures based on geological endowment or major discoveries can reduce some forms of endogeneity but introduce other uncertainties.

The Economic Resource Curse

Early resource-curse research focused on growth. Commodity booms can appreciate the real

exchange rate, making agriculture and manufacturing less competitive, a process commonly called Dutch disease. Labor and capital shift toward the booming sector and non-traded services. When prices fall, the country may discover that other export industries have weakened.

Resource sectors are often capital-intensive and create fewer direct jobs than their share of national income suggests. A country can report high export value while unemployment and regional inequality remain severe. Economic outcomes depend on local procurement, skills, infrastructure, taxation, and whether revenues are converted into productive assets.

Price Volatility and Procyclical Spending

Oil and mineral prices fluctuate sharply. During a boom, governments face political pressure to raise salaries, subsidies, construction, and borrowing. These commitments are difficult to reverse after revenue falls. Projects started quickly may exceed the capacity of agencies to evaluate, procure, and supervise them.

Procyclical policy amplifies the commodity cycle. Spending increases when the economy is already expanding and contracts during downturns, when public support is most needed. Stabilization funds, conservative price assumptions, expenditure rules, and medium-term budgeting can reduce this pattern, but only when rules are transparent and enforced.

The Fiscal “Presource” Curse

Problems can begin before production. A major discovery changes expectations and may encourage governments to borrow against future revenue. Politicians promise infrastructure or public employment before costs, timelines, and commercial viability are certain.

IMF research describes a “fiscal presource curse” in which giant discoveries are followed by higher debt and later distress, especially where institutions are weak. This mechanism shows that resources do not need to generate revenue before they alter political incentives. Expectations themselves can reduce caution.

Authoritarian Durability

Ross finds substantial evidence that oil income can help authoritarian rulers remain in power. Resource revenue allows a government to fund security services, patronage, public employment, subsidies, and selective benefits without relying heavily on broad taxation.

The taxation mechanism is politically important. When citizens finance government through visible taxes, they may demand representation and accountability. A state funded by external resource rents

can distribute benefits while limiting bargaining. This is not a universal law: taxation and democracy have complex histories, and resource-rich democracies exist. The mechanism is more likely where institutions were already weak when revenue expanded.

Repression, Patronage, and Information

Resource revenue can support coercion, but rulers also use patronage. Jobs, contracts, licenses, and regional transfers can divide opposition and reward loyalty. State-owned enterprises may become political institutions as well as commercial ones.

Information control is another mechanism. Complex contracts, confidential sales, and off-budget accounts make it difficult for citizens to know what the state receives. When revenue is hidden, poor public services can be blamed on scarcity rather than diversion. Transparency does not guarantee accountability, but accountability is unlikely without usable information.

Corruption and Institutional Quality

Resource projects create large, concentrated transactions involving licenses, land, infrastructure, procurement, and commodity sales. The potential gains from influencing one decision can be enormous. Corruption risks include bribery, conflicts of interest, beneficial ownership hidden through companies, tax manipulation, underpriced asset sales, and diversion through state enterprises.

Not all corruption is caused by resources, and corruption is difficult to measure. Perception indexes may reflect publicity rather than actual transactions. Stronger studies examine audit findings, contract allocation, price discrepancies, or policy changes. Ross's cautious conclusion is that petroleum affects some forms of governance more clearly than a single general "corruption level."

Civil Conflict

Oil and other valuable resources can increase conflict risk through several pathways. Rebels may seek control of a producing region or use lootable resources to finance operations. Communities may mobilize around environmental damage, displacement, unequal revenue sharing, or exclusion from jobs. Governments may militarize resource regions instead of negotiating legitimate grievances.

The effect is conditional. Offshore oil is harder for rebels to capture than alluvial diamonds or timber. Strong states may protect infrastructure without widespread conflict, while weak states can struggle to control remote deposits. Ethnic geography, prior violence, terrain, neighboring wars, and foreign intervention matter.

Subnational Evidence

Country-level studies average across regions and can hide local effects. Subnational research compares producing and nonproducing areas within the same country. It can show whether a mine increases local income, conflict, pollution, public spending, or migration.

This approach improves causal identification but has limits. Revenue may be collected nationally and spent elsewhere. People and firms move across regions. Authoritarian durability is a national outcome that cannot be explained solely through local variation. The best research combines levels rather than treating one as universally superior.

Endogeneity and Omitted Variables

Countries with weak institutions may be more likely to depend on resources because other sectors fail to develop. Conflict may reduce manufacturing and make resource exports dominate. These possibilities create reverse causation.

Omitted variables also matter. Colonial history, geography, state capacity, inequality, and regional security can influence both resource development and political outcomes. Researchers use discoveries, price shocks, geological data, instrumental variables, case comparison, and natural experiments to address these problems, but no method removes every assumption.

Why Some Resource-Rich Countries Perform Well

Successful cases demonstrate that the curse is not inevitable. Strong public administration, competitive politics, transparent budgets, independent oversight, stable property rights, and professional management can convert resource income into lasting assets.

Timing is crucial. Institutions established before a boom may constrain later political pressure. Building rules after revenue begins is harder because powerful beneficiaries already exist. Even strong systems require adaptation when prices, technology, or public priorities change.

Contracts and Licensing

Governance begins before extraction. Governments decide which areas to offer, how companies qualify, whether bidding is competitive, which taxes and royalties apply, and what environmental and social obligations are included. Secret or poorly negotiated contracts can lock in weak terms for decades.

The Extractive Industries Transparency Initiative emphasizes contract disclosure because citizens and

oversight bodies need to evaluate revenue terms and company obligations. Publication should include amendments and annexes, not only a summary. Confidentiality may be justified for limited commercial information, but secrecy should not cover the basic allocation of public resources. (Extractive Industries Transparency Initiative, n.d.)

Beneficial Ownership and State-Owned Enterprises

Knowing a company's formal name is insufficient when the real owners are hidden behind intermediaries. Beneficial-ownership disclosure can reveal conflicts involving public officials and related parties.

State-owned enterprises often collect, sell, or invest a large share of resource revenue. They may perform legitimate strategic roles, but complex mandates can hide quasi-fiscal spending and debt. Audited accounts, clear transfer rules, procurement transparency, and professional boards reduce political misuse.

Revenue Management and Sovereign Wealth Funds

Resource revenue should be managed across generations and commodity cycles. A stabilization fund can save during booms and support the budget during downturns. A savings fund can convert an exhaustible asset into a diversified financial portfolio.

A fund is not automatically good governance. It can become an off-budget pool, invest for political reasons, or conceal losses. Clear deposit and withdrawal rules, independent audit, public reporting, and coordination with the national budget are essential. Fiscal rules should account for debt and other liabilities rather than celebrating fund assets in isolation.

Public Investment and Absorptive Capacity

Resource-rich developing countries often need infrastructure and human capital, so saving everything abroad may be inappropriate. Domestic investment can produce high social returns. The problem is that ministries, contractors, and local markets may not be able to absorb a sudden spending increase efficiently.

Project appraisal, competitive procurement, maintenance planning, and gradual scaling are therefore as important as the amount invested. A visible but poorly designed project can consume revenue without producing lasting value.

Transparency, Participation, and Accountability

Publishing data is the beginning, not the end, of accountability. Information should be timely, disaggregated, understandable, and linked across licenses, production, company payments, government receipts, budgets, and local transfers. Civil society and journalists need space and technical capacity to use it.

Community participation is especially important where extraction affects land, water, health, and livelihoods. Consultation should occur before key decisions and should not be reduced to a meeting after the project is effectively approved.

Energy Transition and Critical Minerals

The global energy transition changes the resource-curse debate. Fossil-fuel exporters face the risk that reserves or infrastructure lose value. At the same time, demand for lithium, copper, cobalt, nickel, and other minerals creates new opportunities and governance pressures.

Governments should avoid borrowing on the assumption that today's prices will persist. Contracts need environmental safeguards, closure obligations, and fair allocation of transition risk. Diversification is not merely a policy slogan; it is protection against technological and climate uncertainty.

Research Gaps

Ross identifies areas beyond democracy, corruption, and conflict, including gender, education, demographics, international relations, and transparency. Later research should also examine climate risk, local consent, supply-chain due diligence, informal mining, and the distribution of benefits within households.

More attention is needed to sequence. The same policy may work differently before discovery, during construction, at peak production, and after depletion. Longitudinal research can reveal whether apparent success depends on a temporary boom.

Answer to the Discussion Question

More corruption, less democracy, and more conflict can make a country appear more resource-dependent, but they do not necessarily reduce its geological abundance. Conflict can destroy non-resource industries, discourage investment, interrupt production, and increase smuggling. Corruption can cause reserves to be developed inefficiently or revenues to disappear. The measured economy

may therefore become more dependent on resources even while citizens receive less benefit.

This possibility illustrates endogeneity: bad institutions can be both a consequence and a cause of resource dependence. Researchers must avoid interpreting correlation as a one-way chain.

Conclusion

What has been learned about the resource curse is that petroleum and mineral wealth create political and economic risks through identifiable mechanisms, not mystical inevitability. Volatility, concentrated rents, weak taxation links, patronage, coercion, secrecy, and conflict over distribution can damage institutions and development. These effects are strongest where governance is weak and public expectations rise faster than administrative capacity.

The curse can be mitigated through transparent contracts, beneficial-ownership disclosure, accountable state enterprises, prudent borrowing, credible fiscal rules, stabilization and savings arrangements, competitive procurement, local participation, and investment in diverse human and productive assets. Natural wealth becomes a blessing only when institutions convert a temporary and exhaustible asset into broad, durable capability.

Works Cited

Ross, Michael L. (2015). What have we learned about the resource curse? *Annual Review of Political Science*, 18, 239-259.

International Monetary Fund. [Managing Natural Resource Wealth](#).

Extractive Industries Transparency Initiative. [Contract Transparency](#).

Cust, J., & Mihalyi, D. (2017). Evidence for a presource curse. Research on resource discoveries and fiscal expectations.