

THE RESOURCE CURSE, RENT-CYCLING THEORY AND DEVELOPMENT POLICY

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- **The Scale and Impact of Rent Flows**
- **A Low-Rent Model as a Counter-Factual**
- **A High-Rent Staple Trap Model**
- **Economic Reform Needs a Political Implementation Strategy**
- **Geopolitical and Contrived Rent Cases**
- **Main Conclusions**

THE SCALE AND IMPACT OF RENT FLOWS 1

- **Contradictory Econometric Results on Resource Curse**
- Sachs and Warner (1995 and 1999) found a detrimental impact of natural resource exports: which they attributed to policy closure to stem Dutch disease
- Acemoglu et al. (2001 and 2002): nature of colonial institutions is more important than resources
- Lederman and Mahoney (2007) query both results: argue natural resource rents boost economic growth
- Econometric analysis treats rent flows as black box: resource curse is part of a broader **rent** curse, which helps explain the conflicting econometric results

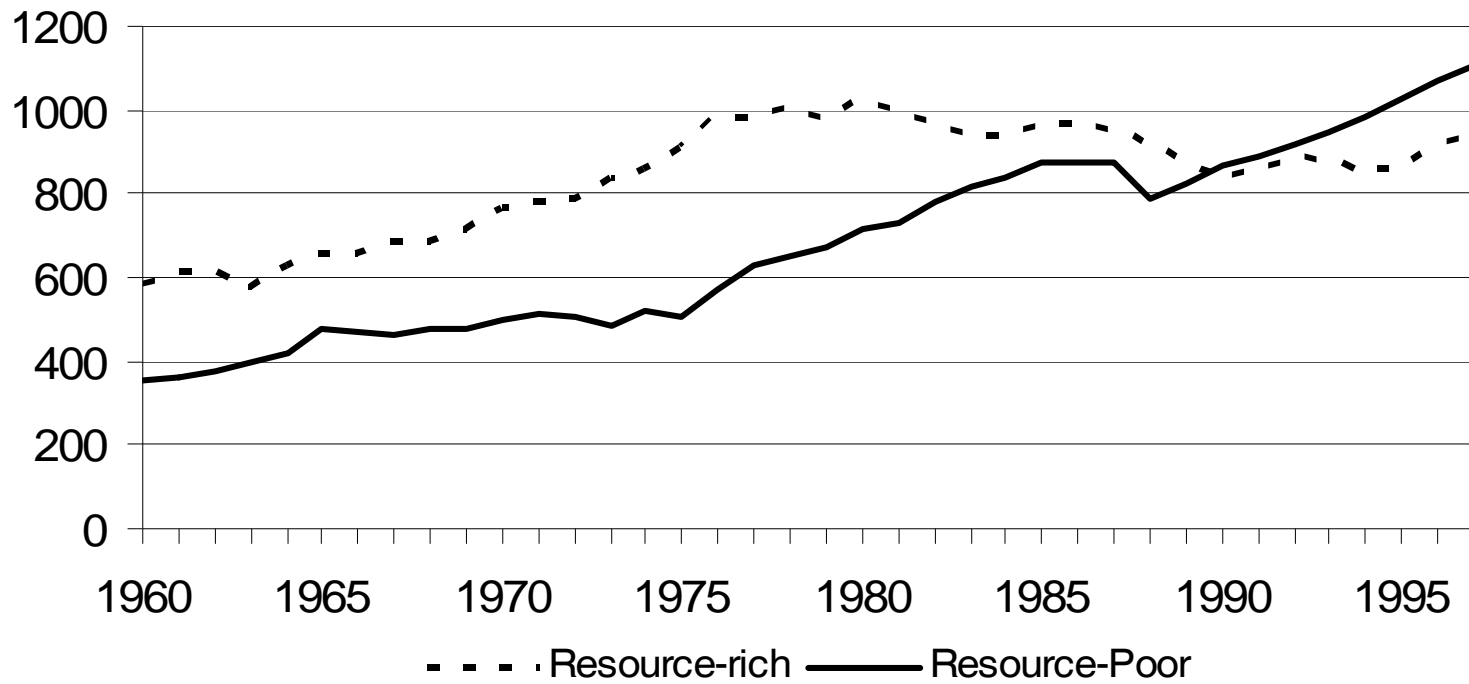
SCALE AND IMPACT OF RENT FLOWS 2

- **Build Rent Cycling Theory from In-depth Case Studies of Rent Flows**
- a) LDC rent flows (15-30% GDP) can destabilise economy
 - (i) Natural resource rent
 - (ii) Geopolitical rent (e.g. aid)
 - (iii) Contrived rent (derive from changing relative prices)
- b) Rent has two key impacts
 - (i) government incentives +
 - (ii) economic path

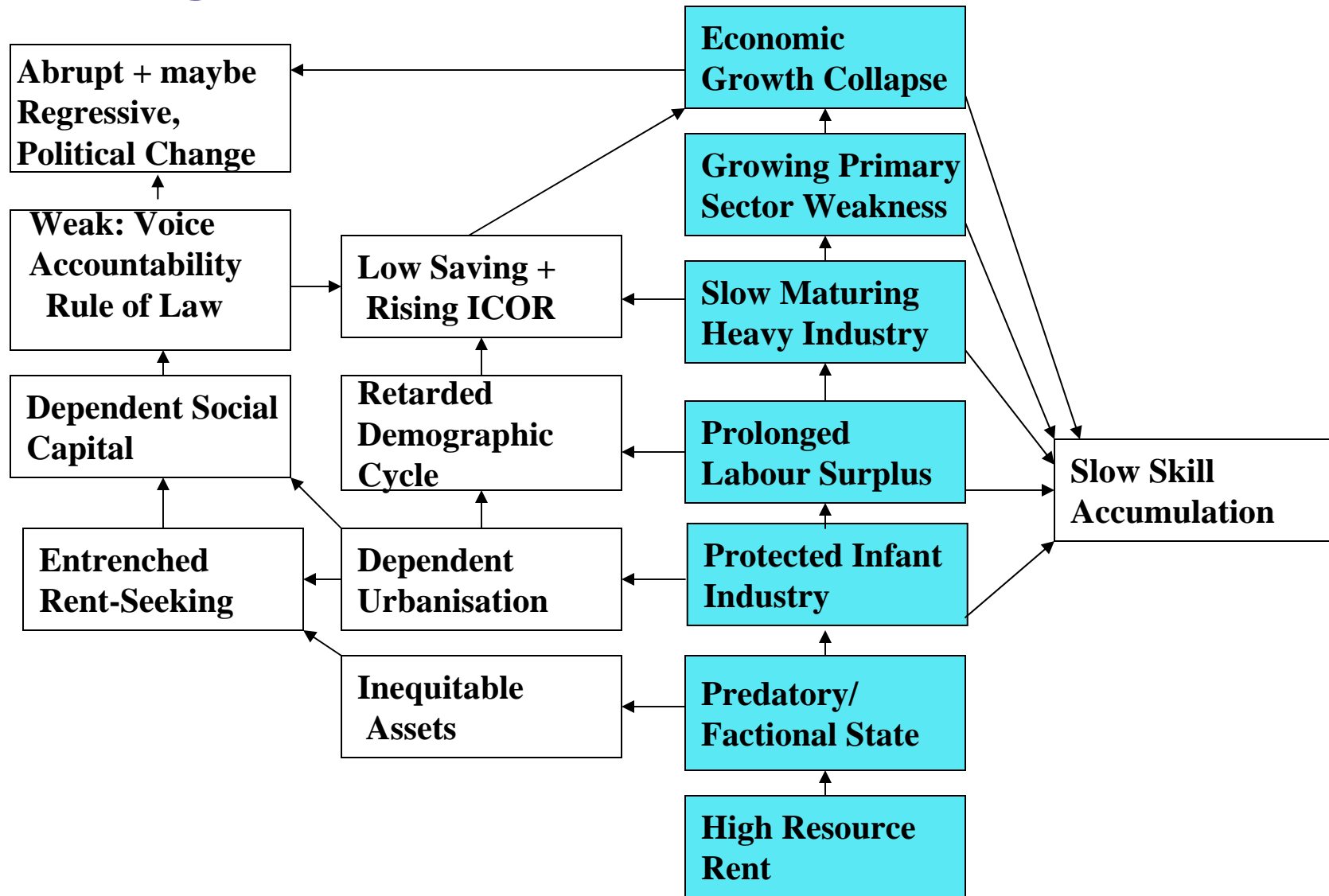
SHARE OF RENTS IN GDP 1994 AND 1985-97 GDP GROWTH

Resource endowment	PCGDP growth 1985- 97 (%)	Total rent (%GDP)	Pasture & Cropland rent (% GDP)	Mineral rent (% GDP)
<u>Resource Poor</u>				
Large	4.7	10.56	7.34	3.22
Small	2.4	9.86	5.41	4.45
<u>Resource Rich</u>				
Large	1.9	12.65	5.83	6.86
Small, non- mineral	0.9	15.42	12.89	2.53
Small, hard mineral	-0.4	17.51	9.62	7.89
Small, oil	-0.7	21.22	2.18	19.0
<u>All Countries</u>		15.03	8.78	6.25

Median GDP per capita (constant 1995 US\$) resource-rich and resource-poor developing countries



High-Rent Staple Trap Model



Social Capital

Produced Capital

Natural Capital/
Resource Trajectory

Human Capital

ECONOMIC REFORM REQUIRES A POLITICAL STRATEGY FOR ITS IMPLEMENTATION

- **Oil Insulates Angolan Elite from Macro Shocks**
- Angolan oil rent subsidises elite (1%) + army, whose demands outstripped rent and destabilised economy
- Elite used IFI reforms to capture SOEs to insulate income from macro instability so indifferent to reform
- Real exchange rate appreciated 3X from 1993 (when farming last competitive): manufacturing + farming $\frac{1}{4}$ *expected* GDP share, but 70% depend on farming

ANGOLA NEEDS DUAL TRACK STRATEGY TO PROTECT REFORMS FROM RENT- RECIPIENTS

- Angola could adapt China's dual track reform:
- Track 1 = stimulates dynamic market sector (rural Angola) to absorb surplus labour + diversify economy
- Track 2 = slow reform of rent-distorted sector (Luanda) to limit elite backlash while Track 1 builds pro-reform political constituency to neutralise elite
- Mining MNCs' Production Sharing Agreements can be adapted to revitalise corporate social policy to shield new firms from rent predation in early reform zones

GEOPOLITICAL AND CONTRIVED RENT 1

- **North Korea Extracts Geopolitical (Terror) Rent**
- Resource-poor regime had growth collapse in late-1980s
- Extracted terror rent to avoid reform by threatening neighbours with erratic behaviour
- Elsewhere, foreign aid may replicate features of the natural resource curse, as in 1980s and 1990s Kenya

GEOPOLITICAL AND CONTRIVED RENT 2

- **South Korea Mismanaged Contrived Rent**
- 1950s regime cycled 20-30% GDP in geopolitical, contrived and crop rent to protect 'basket case' industry
- US aid cut prompted new regime to cut contrived rent + open trade policy to expand labour-intensive manufacturing
- 1970s cycled 10% GDP in contrived rent from savers to chaebol heavy industry,
- Industry big push investment hit economy like a commodity boom: Dutch disease and growth collapse 1979-81
- Rent-seeking inertia: Chaebol captured privatised banks to cycle cheap capital to subsidiaries, which invested inefficiently

MAIN CONCLUSIONS

- Resource curse is part of a broader rent curse, which helps to explain conflicting econometric results
- Case studies can track how rent flows impact political incentives + economic growth to build a rent cycling theory that facilitates emulating successful reform
- Rent cycling theory suggests:
 - (i) Economic reform requires a political strategy, like China's dual track, to resist sabotage by rent recipients
 - (ii) Recognising that geopolitical + contrived rent can replicate features of resource rent should help improve policy