The context

A study of resource-driven development from 1960 to 1997 reveals scant evidence of a resource curse in the 1960s when the income per head of the resource-rich economies remained on average 50% above those of the resource-poor economies (Auty 2001, 5). However, when commodity price volatility increased during 1974–85 growth collapses proliferated, especially among resource-rich economies. Thereafter, during 1985–97 both large and small resource-rich economies grew slower than the resource-poor economies, whose mean income per head surpassed that of the resource-rich economies. Among the resource-rich economies the mineral economies had the highest resource rent but the slowest growth, with oil exporters having the highest rent and weakest growth of all (Table 24.1).

The absence of evidence of the effects of a resource curse in the 1960s suggests the curse is not an inevitable outcome. Moreover, economists predict that a high rent/GDP ratio facilitates economic development if it is efficiently deployed to boost capital formation and expand the capacity to import the capital goods required to build a modern economy. However, high rent also creates contests for its capture and if this causes political objectives to override economic ones then the resulting rent deployment distorts the economy. This paper argues, first, that the oil-rich economies were especially vulnerable to the policy failure that triggered growth collapses among resource-rich economies through the 1970s and 1980s and, second, that policy failure confers scope for a policy learning curve.

This perspective helps explain why 15 years of statistical research have failed to provide a definitive explanation for the resource curse and its existence remains contested (Lederman and Maloney 2007). Although patronage-driven rent cycling adversely impacted economic growth through the 1970s and 1980s, IFI-backed reforms subsequently reduced its incidence. Yet statistical analysis has neglected this policy improvement (Sachs and Warner 1995; Brunnschweiler 2008). In addition, statistical analysis neglects the fact that resource curse is part of a broader rent curse that can be caused by geopolitical rent (foreign aid) and regulatory rent (that governments create by changing relative prices (Tollison 1982)), as well as by natural resource rent (Auty 2010). Focusing on natural resource rent underestimates the total rent cycled by governments.
Foreign aid shared the unearned or ‘windfall’ characteristic of resource rent until donors became more discriminating regarding its application in the 1990s (Collier 2006). Regulatory rent tends to expand with rising levels of state intervention and decreasing trade openness. Each rent source can comprise 10–20% of GDP or more (World Bank 2006; Svenssen 2000 and Krueger 1992), potentially taking the total rent within the economy to one-fifth to one-third of GDP or more.

This paper argues that the oil curse is an extreme manifestation of a broader rent curse that is rooted in policy failure. It draws on the emerging theory of rent cycling, which posits that rent systematically shapes elite incentives, thereby moulding policy, which in turn drives the economic trajectory (Auty 2010). The next section (2) of the paper relates rent cycling theory to the resource curse literature. Section 3 explains why oil-driven economies were particularly vulnerable to the post-1960s manifestation of the resource curse and identifies economic policies for effective rent deployment. Section 4 evaluates the evidence for a policy learning curve from the oil exporters’ deployment of the windfall rent from the 2003–8 oil boom. Section 5 proposes a dual track strategy for economic reform that can circumvent the political constraints on such reform.

The literature

Academic speculation about the existence of a resource curse was fuelled by case study analysis of the deployment of the 1974–78 and 1979–81 oil windfalls (Gelb 1988, Karl 1997), which revealed mostly disappointing outcomes. Sachs and Warner (1995 and 1999, 23) triggered a series of systematic statistical analyses. They identified Dutch disease effects as the driver of the curse whereby the booming commodity revenue stream strengthens the real exchange rate, which causes the non-booming tradable sectors (agriculture and manufacturing) to contract so that when commodity prices eventually fall the economy may be less prosperous than it was before the boom occurred. Sachs and Warner also find that most natural resource-rich governments close their trade policy as their dependence on primary product exports increases in order to counter the employment-diminishing effects of Dutch disease.

Interestingly, the trade policy/resource export dependence curve traces an inverted U-shape because at very high levels of resource dependence trade policy re-opens. This reflects the responses of the oil-rich Gulf monarchies, whose unusually high rent per head supplied sufficient revenue to subsidize the livelihoods of nationals, including providing public sector

### Table 24.1 Share of rents in GDP 1994 and GDP growth 1985–97, by country natural resource endowment

<table>
<thead>
<tr>
<th>Resource Endowment</th>
<th>PC GDP growth 1985–97 (%)</th>
<th>Total rent (% GDP)</th>
<th>Pasture and cropland rent (% GDP)</th>
<th>Mineral rent (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource Poor¹,²</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>4.7</td>
<td>10.56</td>
<td>7.34</td>
<td>3.22</td>
</tr>
<tr>
<td>Small</td>
<td>2.4</td>
<td>9.86</td>
<td>5.41</td>
<td>4.45</td>
</tr>
<tr>
<td>Resource Rich</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>1.9</td>
<td>12.65</td>
<td>5.83</td>
<td>6.86</td>
</tr>
<tr>
<td>Small, non-mineral</td>
<td>0.9</td>
<td>15.42</td>
<td>12.89</td>
<td>2.53</td>
</tr>
<tr>
<td>Small, hard mineral</td>
<td>−0.4</td>
<td>17.51</td>
<td>9.62</td>
<td>7.89</td>
</tr>
<tr>
<td>Small, oil exporter</td>
<td>−0.7</td>
<td>21.22</td>
<td>2.18</td>
<td>19.04</td>
</tr>
<tr>
<td>All Countries</td>
<td>15.03</td>
<td>8.78</td>
<td></td>
<td>6.25</td>
</tr>
</tbody>
</table>

¹ Resource-poor = 1970 cropland/head < 0.3 hectares
² Large = 1970 GDP > $7 billion
Source: Derived from World Bank (2010).
employment that permitted governments to ignore employment destruction by imports. But a more common response among commodity exporters, including other oil exporters, was to protect manufacturing and channel some rent into state-led industrialization, much of which was inefficiently executed and unprofitable (Auty 1990). Lal and Myint (1996) show that protective policies repress markets, thereby distorting the economy and causing growth to collapse.

Subsequently, Acemoglu et al. (2001, 2002) argued that the quality of institutions is more important than natural resources *per se* in determining whether resources are a blessing or a curse. In particular, they identify as detrimental to economic growth those extractive colonial institutions associated with colonies that were too unhealthy for significant European settlement. Yet Glaeser et al. (2004) relegate institutions to secondary status: they find that institutions improve as a consequence of rising incomes but do not cause that rise, which is explained by human capital and policy choice. Moreover, Khan (2000) notes that the political rationale for choosing policies that are economically sub-optimal is often compelling: governments in many newly independent countries find it necessary to deploy rents to secure political cohesion without which economic activity struggles. North et al. (2009) model the resulting rent-driven outcome as Limited Access Order societies wherein rent is deployed primarily to limit potential violence by co-opting into the elite those deemed capable of wielding violence.

It therefore seems that in low-income economies, institutions bend to accommodate political incentives rather than mould those incentives. For example, Schlumberger (2008) associates a patrimonial form of capitalism with oil exporting countries in which informal rules override formal institutional rules because that benefits élite rent recipients. It also gives the élite an interest in resisting economic reform (World Bank 2009). More recent work by Acemoglu and Robinson (2008) backtracks on their earlier findings and recognizes the ability of the élite to manipulate institutions. This shift is consistent with the central role that rent cycling theory assigns to élite incentives.

Rent cycling theory identifies two basic development trajectories, namely low-rent competitive industrialisation and the high-rent staple trap. The high-rent staple trap trajectory describes the development of most oil-rich economies but the low-rent competitive industrialization trajectory furnishes an instructive counterfactual. More specifically, low rent creates incentives for the élites to create wealth efficiently since economic growth expands tax revenue, which in the presence of low rent is the principal source of discretionary expenditure, and one that the élite in low rent economies frequently benefit from disproportionately. Such wealth creation requires the provision of public goods and maintenance of efficiency incentives, which align the economy with its comparative advantage that in low-rent economies lies in the early export of labour-intensive manufactures.

The resulting low-rent trajectory triggers three virtuous circuits (Figure 24.1). First, competitive manufacturing rapidly absorbs surplus rural labour so that rising wages automatically drive diversification into productivity-boosting, skill-intensive and capital-intensive sectors. Second, the associated early urbanization accelerates the demographic cycle to reduce the dependant/worker ratio, which raises the share of investment in GDP and accelerates the GDP growth rate per head (Bloom and Williamson 1998). Third, the rapid structural change engendered by competitive industrialization proliferates social groups that impede policy capture by any one group and drive incremental democratization as three sanctions against anti-social governance strengthen. Specifically: private firms protect their investment by lobbying for property rights and the rule of law (Li et al. 2001); unsubsidized urbanization strengthens self-help civic voice (Isham et al. 2005); and government reliance on taxing income, profits and expenditure (forced by the absence of rent from commodity trade) spurs demand for accountable public finances (Ross 2001).

In contrast, the high rent that is characteristic of oil-driven economies elicits political contests for its capture that deflect élite incentives into cycling rent to boost patronage that offers larger and more immediate (often personal) rewards than the long haul of economic growth. Consequently, rent
flows through patronage networks at the expense of markets, which shifts the high-rent economy away from its comparative advantage and lowers investment efficiency. This locks the economy into a staple trap of decelerating growth and over-reliance on a weakening primary sector.

The high rent trajectory represses all three virtuous circuits that drive the low rent trajectory (Figure 24.2). First, in the absence of competitive industrialization, surplus labour persists so that income inequality rises, which puts pressures on élites to deploy rent to grow the bureaucracy and expand employment in protected industries that markets would not support. Second, the burgeoning demand for transfers from the subsidized sector eventually outstrips the rent, either through structural change or falling commodity prices, so governments extract returns to capital
and labour in the primary sector to augment the rent. The transfers impede competitive structural change and increase reliance on a primary sector that is weakening. Third, sanctions against anti-social governance atrophy as: businesses benefit more from lobbying politicians than from productive investment; social capital is subservient, reflecting dependence on government largesse; and government reliance on revenue from rent streams rather than direct and indirect taxation eases public pressure for financial accountability. Since rent recipients resist market reform because it shrinks their rent, growth eventually collapses and recovery is protracted.

These two basic rent-driven models explain the intensifying post-war divergence of global rent-driven development trajectories (Auty 2001, 5). Although growth rates show little evidence of a resource curse in the 1960s, case studies reveal that the statist policies favoured in the post-war decades were already cumulatively distorting high-rent economies, as the staple trap model explains, a process that persisted into the 1970s. The commodity price shocks of 1974–85 hit the weakened high-rent economies and triggered growth collapses, first in the late 1970s in the least credit-worthy states, namely many sub-Saharan African (SSA) oil-importers; then spreading in the early 1980s to economies in receipt of recycled petrodollars in SSA and in Latin America; before hitting the oil-exporters in the mid-1980s when the oil price abruptly plummeted. Despite initial resistance to international financial institutions (IFI)-backed reforms by rent recipients, many developing country governments, but not all, subsequently pursued a policy learning curve that eventually raised growth rates through the 1990s and 2000s (Table 24.2).

Finally, rent cycling theory recognizes that the adverse impacts of high rent are exacerbated (and therefore more intractable) in the presence of four factors. First, statist policies (Van der Walle 1999; Ndulu et al. 2008) expand scope for rent-seeking that few governments are able to resist. Second, concentrated commodity linkages (as in mining) boost such opportunities by concentrating rent on governments rather than spreading it across many economic agents (Baldwin 1956). Third, ethnic tension feeds competition for patronage rent cycling (Montalvo and Reynal-Querol 2005, 294). Fourth, parliamentary parties target expenditure at swing voters via projects rather than at universal programmes that benefit the broader electorate (Collier and Hoeffler 2006). This is especially so in young democracies that lack voter credibility (Keefer 2007). The first two augmenting factors (statist policies and concentrated linkages) interact, and when combined with oil’s typical high rent/GDP ratio help to explain the intensity of the oil curse.

### The oil curse

Rent cycling theory identifies three key reasons why the mineral economies and especially the oil-exporting economies have proved so vulnerable to the rent curse. First, oil rent tends to be unusually high relative to GDP so that governments that tax the rent away increase the impact of

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**Table 24.2 GDP growth per head, MENA and other developing regions, 1961–2008**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East and North Africa</td>
<td>3.9</td>
<td>3.0</td>
<td>−1.3</td>
<td>1.1</td>
<td>2.7</td>
</tr>
<tr>
<td>MENA oil exporting economies</td>
<td>5.8</td>
<td>−0.2</td>
<td>−1.6</td>
<td>−5.9</td>
<td>3.4</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>4.3</td>
<td>3.6</td>
<td>2.5</td>
<td>6.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>2.7</td>
<td>2.3</td>
<td>0.5</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.8</td>
<td>1.6</td>
<td>0.2</td>
<td>−0.4</td>
<td>2.5</td>
</tr>
<tr>
<td>South Asia</td>
<td>2.0</td>
<td>0.7</td>
<td>3.2</td>
<td>2.7</td>
<td>5.4</td>
</tr>
<tr>
<td>World</td>
<td>3.1</td>
<td>2.5</td>
<td>1.0</td>
<td>1.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

*Source: World Bank (2010).*
public expenditure on the economy, for better or for worse, and risk intensifying the Dutch disease effects. Within the non-mining tradable sector, Dutch disease effects tend to be stronger for agriculture than manufacturing because manufacturers have proved more effective at lobbying for protection against cheaper imports than farmers have. The resulting pro-industry policy bias represses the strong contribution that agriculture can make to the early stages of development, not least as a source of labour-intensive employment and transmitter of basic business skills, but also by supplying inputs for further domestic processing, expanding the home market for basic, locally-made manufactured goods and diversifying export revenue and taxation (Mellor 1976 and 1995; Timmer 2007). Unfortunately, protected industry usually has had little incentive to mature and compete because it invariably functions primarily to accommodate rent seeking. It has also been capital-intensive and created few jobs so governments compensate by over-expanding public sector employment.

However, compared with soft commodities oil revenue streams tend to be not only large relative to GDP but also volatile (Cashin et al. 2000; Cashin and McDermott 2002; van der Ploeg and Poelhekke 2009), so that they severely test macro-economic management, not least by unleashing intense political pressure to spend during booms and vociferous opposition to cut-backs during downswings (Gelb 1988). The volatility of oil prices is rooted in the unusual capital intensity of hydrocarbon extraction, which results in long lead-times between the decision to invest and the start-up of production. Project lead times of four to seven years and more render it difficult to match supply and demand so that productive capacity either lags demand or runs ahead of it, which amplifies booms and busts (Auty 1987).

The second key reason why oil exporting economies under-perform also reflects the exceptionally capital-intensive production function of oil extraction, which concentrates rent on very few economic actors, notably the government. Expressed in terms of the four domestic economic linkages of the oil sector: backward and forward production linkages (for locally-sourced inputs and further processing, respectively) tend to be limited since mining inputs are often imported due to their sophistication, which benefits from scale economies, whereas downstream products incur higher freight costs than upstream products and tend to locate at major markets. Moreover, the small albeit well-paid oil sector labour force and frequent foreign ownership of capital limit second round expenditure (final demand linkage) within the host economy. This leaves fiscal linkage, or taxation, as the dominant contribution to domestic economic growth, which is concentrated on the government and elicits political contests for its capture. Governments tend to react to windfalls as if they represent permanent changes in income (Gelb 1988). Private economic agents are more cautious and tend to save more and to seek more efficient returns on their investments. Consequently, rent tends to be deployed less effectively when it is concentrated on governments than when the linkages disperse rent across many economic agents, as with peasant agriculture (Bevan et al. 1999).

The singular economic linkages from hydrocarbon extraction trigger the third factor behind the oil curse, namely over-ambitious state intervention within the economy. Several oil-rich governments used their windfalls to intensify state-led heavy industry drives in the mid-1970s (Auty 1990), including Venezuela, Trinidad and Tobago, Algeria, Iran and Indonesia while Malaysia, Mexico and Nigeria did so in response to the 1979–81 boom. In addition, most oil-rich governments expanded social entitlements that were most generous in the Gulf monarchies, which incurred levels of public expenditure that proved both difficult to sustain and to reduce when the oil price softened in the mid-1980s. Many oil-exporting governments augmented their rent with foreign borrowing during the booms, which they could not service when oil prices fell. Even those that accumulated financial reserves during the boom, quickly depleted them in the downswing: Saudi Arabia struggled towards the close of the initial decade of lower oil prices (Auty 2001, 193–207). Where reserves were limited and IFI-backed stabilization proved difficult to sustain, the political system was destabilized, notably in Algeria
(Chemingui and El-Said 2007), Nigeria (Sala-y-Martin and Subramanian 2003), Russia (Gaddy and Ickes 2010) and Venezuela (Hausmann 2003).

It may be recalled that rent cycling theory notes that the risks of rent misallocation are still further heightened for oil-rich economies in the presence of high ethnic diversity and youthful democracies. These characteristics imply that newly independent and ethnically fractured oil-exporting democracies like Nigeria and Trinidad and Tobago were especially vulnerable. Their 1974–78 and 1979–81 oil booms conferred rent windfalls equivalent to an extra 20% (Nigeria) and 35% (Trinidad and Tobago) of non-oil GDP annually (Gelb 1988).

Yet the policies required to manage commodity windfall rents were known (Gelb 1988), although environmental accounting has since supplied the basic rationale for effective rent deployment. Environmental accounting demonstrates that part of the revenue from the depletion of the hydrocarbon assets should be transformed into infrastructure and human capital in support of non-oil productive capacity to sustain productivity increases and drive the economy when the oil is exhausted (World Bank 2006). The two critical requirements for achieving this are to match the rate of domestic rent absorption to absorptive capacity and to expand competitive employment in activity that does not depend on rent transfers to sustain it. Typically, this requires the public sector to expand basic infrastructure and promote competitive markets to stimulate private investment in economic diversification. The Permanent Income Hypothesis provides a guide for managing the public finances (Segura 2006). It converts the projected hydrocarbon income stream into a stock of capital and calls for the maintenance of the non-oil fiscal deficit at a level that can be sustained indefinitely by the income stream from the hydrocarbon stock of capital. These objectives are achieved by sterilizing a fraction of the windfall revenue in diversified offshore accounts.

Unfortunately, the economic policy prescriptions say little about managing the political pressures that accompany windfall revenues. Governments have invariably made over-optimistic assumptions about both the scale of the future income stream and their capacity to control the rate of domestic absorption to ensure efficient rent deployment. Most governments absorbed their 1974–81 oil rent windfalls too rapidly, which triggered Dutch disease effects that weakened the non-mining tradables sector and established social entitlements that proved difficult to scale back when oil prices sagged, perpetuating fiscal deficits and inflation. However, despite cycling some rent for political patronage, the two most successful oil exporters, Indonesia and Malaysia, ensured that rent cycled into their large but lagging rural economies by taking advantage of green revolution farming techniques efficiently to boost farm incomes and productivity. This objective also demanded cautious macropolicy. Crucially, they also established competitive manufacturing sectors. Their success confirms that the oil curse is policy-induced and not a deterministic law.

More specifically, both Malaysia and Indonesia established state-owned white elephant projects for political reasons (Auty 1990) but Malaysia deliberately compensated with the expansion of competitive manufacturing, while Indonesia did so more by accident. Malaysia recognized early the inefficiency of infant industry policies and established export-processing zones from 1971, which expanded to a sufficient scale so that when oil prices collapsed in the mid-1980s the zones’ activity sustained economic growth (Saleh and Meyanathan 1993). This outcome appears rooted in a tacit compact between the majority Malays and the more prosperous large Chinese minority to tolerate patronage rent cycling (to Malays) provided it did not undermine incentives for efficient (Chinese) investment. In Indonesia a relatively small number of important Chinese entrepreneurs took advantage of protective tariffs to earn high profits that they re-invested in efficient activity, rather than subsidizing inefficient plants as occurred in the state sector (Flatters and Jenkins 1986). When oil prices weakened in the mid-1980s, Indonesia’s competitive manufacturers performed a similar role to Malaysia’s export processing zones and expanded exports on a sufficient scale to sustain rapid economic growth.
The 2004–8 oil boom: meagre evidence of a policy learning curve

Most resource-rich economies struggled to recover from their 1980s growth collapses owing to opposition from entrenched rent seeking constituencies. Their governments reluctantly embraced IFI-backed reforms in exchange for help with debt service but then struggled with reform implementation in the face of intense opposition. Eventually, the combination of shrinking rent per head and increasingly conditional IFI-backed assistance elicited improvements in economic performance. Table 24.2 traces the growth collapses within resource-rich Latin America, sub-Saharan Africa and Middle East and North Africa (MENA) and identifies the onset of recovery in Latin America through the 1990s with sub-Saharan Africa and MENA picking up during the 2000s.

However, the unexpected oil boom of the mid-2000s sharply expanded resource rent streams, which reduced the urgency of sustaining economic reform and stoked political expectations for immediate distribution of the benefits. Villafuerte and Lopez-Murphy (2010) show the overall public expenditure of the oil exporting economies was pro-cyclical. It widened the non-oil fiscal deficits through the boom before sharply shrinking them during 2009. But variations occurred in the overall policy response that reflect differences between capital-surplus economies (with high oil reserves per head) and capital-scarce/labour-surplus economies (Nankani 1979). Whereas the capital-surplus oil exporters increased savings and also domestic investment (thereby boosting potential long-term growth prospects), most labour-surplus economies expanded consumption.

Many capital surplus MENA oil-exporters deployed their rent more shrewdly than in previous booms: oil industry estimates indicate that Saudi Arabia, Libya, Kuwait and the United Arab Emirates saved 65–80% of their increased revenue 2004–7 whereas regional labour-surplus economies like Algeria saved 40% and Iran ran deficits. Comparable saving rates for Angola, Nigeria and Venezuela are 30%, 28% and 18%, respectively. Regrettably, however, few of the capital-surplus governments took advantage of the oil boom to accelerate labour market reforms designed to shift nationals from oil-dependent state sector jobs to the private sector, which in the Gulf monarchies predominantly relies on immigrant labour. Even for capital-surplus oil-exporters the post-1980s policy learning curve is incomplete.

A second index of policy learning is provided by estimates of the oil price required to balance national budgets. In 2007–8, the price of oil required to sustain expenditure on social entitlements ranged from $18 to $100 per barrel. The estimated oil price required to balance the budget among capital-surplus oil exporters ranged downwards from $42 for Saudi Arabia, Qatar and Libya each required $39, Kuwait $29 and the United Arab Emirates required $18 per barrel. Elsewhere, large labour-surplus economies like Venezuela required $100 per barrel to balance its budget, Iran and Russia $80 while Nigeria required $70, rates of domestic absorption that the 2008–9 price collapse rendered unsustainable. Algeria, however, required just $45 per barrel.

Far less progress along the policy learning curve occurred in the established hydrocarbon producers in South America, a group that excludes emerging Brazil. Their growth collapses exacerbated deep-seated social tensions, whether racial (Bolivia), regional (Ecuador) or class (Venezuela) that empowered populist regimes that implemented three flawed policies. First, mining contracts were repudiated, deterring the foreign investment required to sustain exploration and maintain production. Second, reliance on national oil companies increased, which lowered hydrocarbon extractive efficiency as state firms struggled to execute political favours while also pursuing their commercial mandate. PDVSA underwent a spectacular dilution of corporate autonomy as it boosted expenditure on populist programmes. Third, public consumption was boosted in ways that resemble the populist booms that damaged Latin American growth in the 1960s and 1970s. Sachs (1989) identifies a populist cycle that undermines long-term wealth generation. It begins with an initial surge in public expenditure and real wages that triggers...
rapid economic growth as spare capacity is employed. However, the expenditure outstrips supply and widens the trade deficit as some exports are diverted to the domestic market and imports fill the gap. Inflation also accelerates and expands the fiscal deficit, denting business confidence and triggering capital flight. The initial growth spurt therefore proves unsustainable and within four years of the launch of the boom (longer during an oil boom), emergency stabilization causes real incomes to collapse to levels below those when the populist boom was launched.

The sub-Saharan African oil exporters fared no better: despite high levels of poverty the windfalls continued to benefit the elite disproportionately. Nigerian hydrocarbon production faltered in the face of civil unrest in the Delta producing region that has its roots in the steady shrinkage of local revenue retention as ethnic groups elsewhere demanded, and achieved, statehood in order to expand their ethnic group’s share of the rent (Ejobowah 2000). Even so, the rent accrued to the ethnic élites rather than the majority. Angola extracts rent more efficiently than Nigeria but deploys it inefficiently from a development perspective. Over-rapid domestic rent absorption has tripled Angola’s real exchange rate compared with the early 1990s when agriculture was last internationally competitive (World Bank 2007, 103–20). This cheapens imports and feeds a consumer boom among the urban middle class. But as war-torn transport infrastructure is repaired the 80% of the population reliant on farming, which struggles to re-establish itself after three decades of civil war, is exposed to low-cost imported food. Finally, in Chad, a flagship World Bank experiment to direct rent flows into development expenditure collapsed when a rigid spending agreement encountered the unexpected and massive surge in rent through 2003–8 (Frynas and Paolo 2007).

Dual track reform for oil-exporting economies

This paper has argued that the oil curse is an intense form of a broader rent curse that reflects the unusual capital intensity of hydrocarbon production. Most oil exporters mismanaged their 1974–81 oil windfalls, but since rent shapes élite incentives that mould the policies that in turn drive the development trajectory, the rent squeeze associated with a growth collapse allows for a policy learning curve. Although most capital-surplus MENA oil exporters achieved partial policy improvement through the 2003–8 oil windfalls, the labour-surplus MENA oil exporters along with the emerging producers in sub-Saharan Africa and established Latin American oil exporters lag behind.

The inertia of rent-seeking interests explains the lagged learning curve and suggests that effective economic reform requires a complementary political strategy to circumvent policy capture by self-serving élites. Successful economic reformers that include resource-poor China and Mauritius as well as oil-rich Indonesia and Malaysia, suggest that a dual track reform strategy can achieve this (Lau et al. 2000). The strategy builds a dynamic market economy within special geographical areas (Track One) that function as early reform zones (ERZs). ERZs provide immediately ‘post-reform’ conditions, namely: world class infrastructure; competitive incentives (not subsidies); and enabling (uncorrupted) public services and legal safeguards (Auty 2006). The ERZs postpone reform of the rent-distorted economy (Track Two), which lowers the threat to reforming governments from antagonized rent recipients.

Track One rapidly expands non-oil employment, foreign exchange and taxes to reach a size that can absorb workers and capital from the distorted sector in Track Two, which undergoes a relative decline. Crucially, Track One also builds a pro-growth political constituency that becomes sufficiently powerful to neutralize rent recipients. The experience of the successful economic reformers suggests ERZ-based activity requires 15 to 20 years to become large enough to drive the economy and also permit the gainers from reform in Track One to
compensate losers in the rent-distorted sector. Such a strategy for managing political opposition to economic reform appears critical to avoiding the rent curse.

One further feature of dual track reform with important implications for development economics is that it accelerates structural change, in marked contrast to the ossified social relationships of the staple trap development trajectory that is caused by maladroit oil rent deployment. Such structural change spawns the social groups that can prevent policy capture by one group and, in the terminology of North et al. (2007), propel ‘Limited Access Societies’ across the threshold into ‘Open Access Societies’.

Notes
1 Crowson (personal communication) helpfully points out that these ‘rent’ streams may be more accurately identified as ‘supernumerary government revenue’.
2 Oil producers reportedly consider $80 per barrel as a realistic oil price and they attribute previous prices above that level to market speculators. There is some support for this contention about the role of speculation in boosting prices from the positive link between the prices of oil and gold, which is a well-recognized speculative commodity (IMF 2008, 27–28).

References
The Oil Curse: Causes, Consequences, and Policy Implications


