Thorvaldur Gylfason
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Preface

There was a time, not long ago, when abundant natural resources were commonly and unquestioningly viewed as an important pillar of economic progress and prosperity. Australia, Canada, and the United States were undisputable cases in point. True, some other countries – e.g., Japan and Switzerland – had made rapid advances and reached high standards of living without the benefit of bountiful natural resource endowments, but they were the exceptions that proved the rule.

It was not until internationally comparable national accounts data became available for a large number of countries around the world that it became possible to reconsider on empirical grounds some firmly held views on economic growth and development, including, in particular, the view that economic growth resulted from technological progress and little else and also the view that abundant natural resources were always and everywhere an unmitigated blessing. The new data opened new vistas, new lines of inquiry.

Thus, it was only after 1990 when 30 years of national accounts data for most countries reporting to the World Bank – i.e., nearly the entire membership of the United Nations – had become available that it became feasible to revisit, with statistical methods, the received theory of economic growth that held long-run economic growth to be immune to political and societal institutions as well as the belief, inherited from old economic geography, that natural resources are always a blessing. (Not much attention was paid to the apparent inconsistency between those two views.)

Now, 25 years later, a good deal more is, or appears to be, known than before about economic growth and development, including some of the ways in which good policies and good institutions are good for growth. For example, inflation is much lower on average in Africa and Latin America today than 25 years ago partly because it is now commonly understood that high inflation tends to undermine economic efficiency and growth. Econometric research, supported by theoretical analysis as well as by historical case studies and *vice versa*, has similarly suggested that abundant natural resources, if not well managed, can prove to be a mixed blessing, or worse. Econometric cross-country studies have encouraged other approaches, including detailed comparative studies and case studies stressing historical developments and institutions.

There is, of course, nothing wrong with having abundant natural resource endowments, even if such endowments sometimes attract the wrong sort of people to politics. Rather, the issue at stake is the risk of mismanagement of the resource rents, especially in countries with weak institutions and without fully fledged democracy.

Norway (pop. 5.1 million) has since its oil discoveries around 1970 built up the world's largest sovereign wealth fund amounting currently to $170,000 for every man, woman, and child in Norway. The fund is managed by Norway's independent central bank, kept by design at arm's length from politicians. One of the keys to Norway's success is its deep democratic tradition which made it unlikely if not impossible that socially corrosive rent seeking would arise around the oil sector. Norway's ten oil "commandments," adopted even before oil production began, established ethical guidelines for oil wealth management. Norway's example shows how good governance can be an effective remedy against rent seeking.

Comparative vocabularies of the languages of neighboring nations can be suggestive. The terms "oil king" and "oil queen" are never heard in Norwegian public debate, in contrast to Russia where "oligarchs" loom large on the national scene. With "sea barons," "quota kings," and “quota queens” throwing their weight about in Iceland’s political arena, Icelanders cannot help but notice the difference.

Insofar as democracy guided Norway’s successful management of its oil wealth, the advance of democracy around the world in recent years bodes well for many other countries. In Africa, before 1990, there were five or less democracies compared with seventeen today. In 1961, of Latin America’s ten countries, there were three democracies compared with eight today. In 1943, there were only five democracies in Europe compared with full house today.

There are some fundamental differences between natural resources and natural resource rents and other types of resources and rents. First, natural resource wealth is the sole component of national wealth giving rise to concerns about the need for diversification away from excessive dependence on it. Human resources and social capital do not generate comparable concerns. Second, resource rents differ from regulatory and other types of rent in that, by international law, including the International Covenant on Civil and Political Rights that supersedes national laws, natural resources and the rents derived from them belong to the people as a matter of inalienable human rights (Wenar, 2010). Put simply, natural resources belong to the people. Democrats are less likely than dictators to try to grab natural resources, thus violating human rights to consolidate their political power.

This means that only fully fledged democracies – e.g., the United States – can lawfully bring the rights to the utilization of their natural resources exclusively into private hands. In some autocratic countries – e.g., Equatorial Guinea – the democratic legitimacy needed to justify the transfer of natural resource rents into private hands is missing. Citizens of countries where ordinary people are demonstrably deprived of their fair share in their countries’ natural resources are not only badly treated from the point of view of social efficiency and fairness, but also – this is often overlooked – from the point of view of international human rights proclamations that prohibit discrimination in any shape or form. True, low taxes and generous transfers and subsidies tend to weaken popular demand for democracy in some resource-rich countries, even if such benefits amount to only a small fraction of each citizen’s fair share of the nation’s natural resource wealth, an imbalance that advancing democracy aided by international law can help rectify.

This volume brings together wide-ranging scholarly work on natural resources and their role in economic development around the world. The contributing authors expertly offer the reader a vast panorama that reaches far beyond statistical cross-country studies through a balanced blend of economic theory, history, and institutions supported by incisive case studies from eleven countries on six continents – Botswana, Nigeria, the United States, Mexico, Venezuela, Bolivia, Chile, Indonesia, Australia, Norway, and Spain.

Reference

Wenar, Leif (2008), “Property Rights and the Resource Curse,” *Philosophy and Public Affairs* 36, No. 1, Winter, 1-32.