

- Development Indicators 2002* (Washington, DC: World Bank, 2002).
32. Indur M. Goklany, "The Globalization of Human Well-Being," Policy Analysis No. 447, Cato Institute, Washington, DC, 22 August 2002.
 33. Maddison, *The World Economy*.
 34. The data from the FAO are cited in *ibid.*, p. 7.
 35. World Bank, *Globalization, Growth and Poverty*, p. 48.
 36. David Dollar and Aart Kraay, "Growth Is Good for the Poor," Policy Research Working Paper No. 2587 (Washington, DC: World Bank, 2001).
 37. Bhalla, *Imagine There's No Country*, pp. 36–46. Bhalla argues that the conclusion of Dollar and Kraay is biased by the inclusion of central and eastern Europe (including the former Soviet Union), where a huge widening in inequality coincided with a fall in incomes. This tends to make the elasticity of the incomes of the poor with respect to rising average incomes, in the sample as a whole, closer to unity (i.e. the falling shares in income of the eastern European poor as income falls is interpreted in the pooled cross-section regression as a rising share as income rises).
 38. World Bank, *Globalization, Growth & Poverty*, pp. 49–50.
 39. See Jean-Marc Burniaux, Thai-Thanh Dang, Douglas Fore, Michael Forster, Mario Mira d'Ercole and Howard Oxley, "Income Distribution and Poverty in Selected OECD Countries," OECD Economics Department Working Paper 189, Paris, OECD, March 1998, www.oecd.org.
 40. Wolfgang Stolper and Paul A. Samuelson, "Protection and Real Wages," *Review of Economic Studies*, Vol. 9 (1941), pp. 58–73.
 41. Lindert and Williamson, "Does Globalization Make the World More Unequal?," p. 33.

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What Is the Problem with Natural Resource Wealth?

There is a curious phenomenon that social scientists call the "resource curse" (Auty 1993). Countries with large endowments of natural resources, such as oil and gas, often perform *worse* in terms of economic development and good governance than do countries with fewer resources. Paradoxically, despite the prospects

From Macartan Humphreys, Jeffrey D. Sachs, and Joseph E. Stiglitz, eds., *Escaping the Resource Curse* (New York: Columbia University Press, 2007), Chap. 1.

of wealth and opportunity that accompany the discovery and extraction of oil and other natural resources, such endowments all too often impede rather than further balanced and sustainable development.

On the one hand, the *lack* of natural resources has not proven to be a fatal barrier to economic success. The star performers of the developing world—the Asian Tigers (Hong Kong, Korea, Singapore, and Taiwan)—all achieved booming export industries based on manufactured goods and rapid economic growth *without* large natu-

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ral resource reserves. On the other hand, many natural resources-rich countries have struggled to generate self-sustaining economic takeoff and growth and have even succumbed to deep economic crises (Sachs and Warner 1995). In country after country, natural resources have helped to raise living standards while failing to produce self-sustaining growth. Controlling for structural attributes, resource-rich countries grew less rapidly than resource-poor countries during the last quarter of the twentieth century. Alongside these growth failures are strong associations between resource wealth and the likelihood of weak democratic development (Ross 2001), corruption (Sala-i-Martin and Subramanian 2003), and civil war (Humphreys 2005).

This generally bleak picture among resource-rich countries nonetheless masks a great degree of variation. Some natural resource-rich countries have performed far better than others in resource wealth management and long-term economic development. Some 30 years ago, Indonesia and Nigeria had comparable per capita incomes and heavy dependencies on oil sales. Yet today, Indonesia's per capita income is four times that of Nigeria (Ross 2003). A similar discrepancy can be found among countries rich in diamonds and other nonrenewable minerals akin to oil and gas. For instance, in comparing the diamond-rich countries of Sierra Leone and Botswana, one sees that Botswana's economy has grown at an average rate of 7 percent over the past 20 years while Sierra Leone has plunged into civil strife, its gross domestic product (GDP) per capita actually dropping 37 percent between 1971 and 1989 (World Bank Country Briefs).

The United Nation's Human Development Index illustrates the high degree of variation in well-being across resource-rich countries (Human Development Report 2005). This measure summarizes information on income, health, and education across countries worldwide. Looking at this measure, we find that Norway, a major oil producer, ranks at the very top of the index. Other relatively high-ranking oil-producing coun-

tries include Brunei, Argentina, Qatar, United Arab Emirates, Kuwait, and Mexico. Yet, many oil-producing countries fall at the other extreme. Among the lowest ranked countries in the world are Equatorial Guinea, Gabon, The Republic of Congo, Yemen, Nigeria, and Angola. Chad comes in close to the bottom at 173 out of 177.

Variation in the effects of resource wealth on well-being can be found not only across countries but also *within* them. Even when resource-rich countries have done fairly well, they have often been plagued by rising inequality—they become rich countries with poor people. Approximately half the population of Venezuela—the Latin American economy with the most natural resources—lives in poverty; historically, the fruits of the country's bounty accrued to a minority of the country's elite (Weisbrot et al. 2006). This reality presents yet another paradox. At least in theory, natural resources can be taxed without creating disincentives for investment. Unlike in the case of mobile assets—such as capital, where high taxes can induce capital to exit a country—oil is a nonmovable commodity. Since tax proceeds from the sale of oil can be used to create a more egalitarian society, one could expect less, not more, inequality in resource-rich countries. In reality, however, this is rarely the case.

The perverse effects of natural resources on economic and political outcomes in developing states give rise to a wide array of difficult policy questions for governments of developing countries and for the international community. For instance, should Mexico privatize its state-run oil companies? Should the World Bank help finance the development of oil in Chad; if so, under what conditions? Should the international community have "allowed" Bolivia and Ecuador to mortgage future oil revenues to support deficit spending during the recessions they faced in the past decade? Should Azerbaijan use its oil revenues to finance a reduction in taxes or should it put the money into a stabilization fund? Should Nigeria offer preferential exploration rights to China rather than requiring open competitive bidding