Liquid treasure or trouble? Political scientist explores downside of oil wealth

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(PhysOrg.com) -- Oil-rich countries would seem to have won the mineral equivalent of the lottery, tapping into the kind of vast wealth that their counterparts with more diversified economies could only dream of.

Yet the sheer volume of these revenues can make it easier for authoritarian governments to silence dissent, including clamors for democracy. The wealth can also make these countries less stable than those without oil reserves by leading to violent insurrections when the people who live in a country's oil-rich regions seek a larger share of these immense revenues. And the volatility of oil prices can turn economies that rely too much on oil wealth into harrowing rollercoaster rides.

In a new book, UCLA political scientist Michael L. Ross ascribes these and other afflictions to what he calls "the oil curse." Ross came to this conclusion after methodically analyzing half a century of data on the political and economic lives of 170 nations around the globe, including the 25 nations that produce 90 percent of the world's oil.

While Ross found no evidence that the curse afflicts all nations with oil wealth, he isolated a troubling cluster of problems that plague countries that are poor or developing when the assets are discovered, especially if those assets are then nationalized.

"The irony of oil wealth is that those countries with the greatest social and economic deficits are also the most vulnerable to the oil curse," said

Ross, a professor of political science at the UCLA International Institute's Center for Southeast Asian Studies.

In addition to being more prone to dictatorships, violent insurgencies and pronounced economic swings, countries with oil wealth tilt the labor market toward jobs for men and away from jobs for women, leaving women with less political influence and less influence in the home, Ross reports in "The Oil Curse: How Petroleum Wealth Shapes the Development of Nations," which will be published March 7 by Princeton University Press.

The dearth of economic opportunities for women in turn results in relatively fast population growth, which dilutes the per capita benefit of oil wealth, he found. Effectively sidelining half the workforce also results in less diversified and stable economies overall. Both effects, Ross said, play into a more subtle economic problem that afflicts these countries: While oil-producing nations have grown at about the same rate as other countries, most have not grown as quickly as would be expected given their wealth.

And where population explosions and workforce underutilization do not account for lackluster economic outcomes, government malfeasance does. Oil wealth tends to get squandered by bloated bureaucracies, corruption and waste, he said. The nationalization of such vast wealth, meanwhile, reduces transparency, preventing citizens from holding their governments accountable. Nationalization also minimizes a government's reliance on taxes and therefore its incentive to be responsive to pressures for accountability.

Ross, a pioneer in the use of modern political-science tools to analyze the problems of resource-rich countries, conducted research on timber in Southeast Asia before devoting five years to "The Oil Curse." He also is active in several groups of scholars, including the Political Instability

Task Force and the American Political Science Association's Task Force on Democracy Audits and Governmental Indicators, that use their expertise to warn about the possibilities of conflict around the globe and provide citizen groups with effective measures for political change.

Ross traces the beginnings of the oil curse to the 1970s, when oil-producing nations seized petroleum assets from the seven international oil corporations — the Seven Sisters — that controlled about 85 percent of the world's oil exports in the 1950s and 1960s. Among the leaders who rose to prominence through such nationalization efforts were Libya's Moammar Gadhafi and Iraq's Saddam Hussein.

With the cost of oil having increased roughly tenfold since 1999, the incentive to explore oil reserves in poor and developing countries has grown. Today's global demand for oil is spreading the curse by pushing the petroleum frontier into ever-poorer countries, Ross warns.

"Most states in Africa, the Caspian Basin, Southeast Asia and other regions that have recently begun or are about to begin exporting oil and gas are unfortunately about to confront this vexing dilemma," he said. More than 20 countries are on that list, including Brazil, East Timor, Sierra Leone, Ghana and Cuba.

The oil curse also threatens to stall Arab Spring impulses in petroleum-producing countries, he warns.

"No country with as much oil as Libya, Bahrain, Oman, Algeria or Iraq has ever made a successful transition from authoritarian to democratic rule," he said.

In fact, he insists that pro-democratic forces in Libya would never have succeeded in overthrowing Gadhafi without NATO support. He is concerned that oil wealth may doom the chances of pro-democracy movements in Russia, Iran, Bahrain and Venezuela.

In Syria, on the other hand, oil reserves were small to begin with, and their depletion over the last five years helps explain why President Bashar Assad has been losing his grip on power, Ross said.

Pernicious as the curse may be, countries can take steps to minimize or avoid the negative fallout of petroleum wealth, he emphasizes.

To neutralize the gender inequality and population growth that can accompany petroleum wealth, Ross urges countries on the petroleum frontier to invest in fields like health and education, which benefit large numbers of women, and to follow the lead of such countries as Morocco in establish meaningful gender quotas for elected office so that women can have enough political influence to encourage their participation in the labor force.

To smooth out the inevitable booms and busts of the oil industry, he urges leaders in these countries to forgo the short-term political benefits of immediate spending in favor of the long-term benefit of sustainable growth. In particular, he advocates that countries consider such counter-cyclical steps as paying down their debts, building up their stabilization funds and fostering growth in non-petroleum sectors.

In some cases, full or partial privatization can boost government accountability by making it harder for the state to hide its oil revenues. But the step works best, he said, if the companies are publicly listed on stock exchanges, as Brazil has done. Such exchanges force companies to disclose balance sheets and adhere to internationally recognized accounting standards, providing a kind of transparency missing with nationalized assets.

Consumers also can play a role. By taking a page from the international effort to curb the market for blood diamonds, concerned citizens in the West can help by insisting that gasoline suppliers disclose their product's country of origin. Boycotting oil from "cursed" countries could bring pressure to bear on autocratic petroleum producers in much the way the 2003 Kimberley Process Certification Scheme ensured diamond consumers that their purchases were not financing war and human rights abuses.

"Just as there was a beginning to the oil curse," Ross said, "there could be an end to it."

More information: Ross will be discussing his new book and how oil wealth shapes — and warps — the politics of countries in the Middle East and Africa at a Zócalo Public Square event on Wednesday, March 14, at the Goethe-Institute Los Angeles. For reservations, visit bit.ly/xBoghy .

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