Political Economy and Natural Resources: The "Curse" is in the Approach

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Development Studies Seminars 2016/2017
CEsA/CSG/ISEG
23rd February 2017

(Presentation made while the author was receiving a grant from the Calouste Gulbenkian Foundation)

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- Natural resources and capital accumulation in Mozambique
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Blessings and curses – the debate

- Concerns over the negative impact of a sudden, large increase in foreign exchange inflows have produced a field of research and a very large number of studies, with their own terminology like “curses”, “Dutch disease”, and so on.

- This field of research is particularly “rich” and focused on the economics of “natural resource rich countries”, where minerals are conceived as fixed stocks, mineral abundance is a windfall (temporary luck) unrelated to past investment patterns, and ‘rents’ (which are defined as returns to a factor of production above what is necessary to bring that factor into use, and are assumed to be always the result of a market distortion) are high and easier to appropriate. Not surprisingly, the economic problem for these studies becomes one of sharing the rewards rather than producing more rewards *(Saad-Filho, A. and J. Weeks, 2013. “Curses, Diseases and Other Resource Confusions. Third World Quarterly, vol. 34, No. 1, pp 1-21).*

Blessings and curses – the debate

- Mainstream studies focused on the correlation between natural resource wealth (however defined) and various possible indicators or *proxies* of blessings or curses, namely economic growth, income (in)equality, diversification of production and exports, rent-seeking and corruption.

- Blessing and curse effects are contingent upon natural resource based exports, as exports function like the transformation mechanism that converts natural resources into an economic blessing or curse through rents and inflows of capital.

- These studies found that generally natural resource abundance correlates negatively with those indicators, with Sub-Saharan economies being particularly vulnerable to such effects because the resource boom is concurrent with state formation, weak institutions and unaccountable governments *(Bannon, I. and P. Collier. 2006. Natural Resources and Violent Conflict; Collier, P. and B. Goderis. 2008. Commodity prices, growth and natural resource curse. OxCarre Research Paper 14, Univ. of Oxford).* Table 1 summarises the arguments for the blessing and the curse effects.

Blessing and curse

Blessings	Curses	
	Structuralists	***Neoclassical***
Available foreign exchange from exports, supply of savings and fiscal revenues (income, capital and export taxes, windfall taxes, and so on), which can help address constraints on growth and diversification	Secular tendency for deterioration of barter terns of trade and vulnerability to price volatility due to narrow specialization of exports on primary commodities	Macroeconomic instability due to bad management of price volatility and its consequences, leading to inflation, exchange rate appreciation, eroded competitiveness outside resource enclaves, fiscal and external imbalances
Attraction of foreign private capital due to presence of resources – investors must go where resources are	Specialization around enclaves and inefficient backward/forward linkages	Rent-seeking and corruption of private sector and the state – utility maximising agents engage in rent-seeking because there are more/easier rents in resource-rich economies and a market for rents
Linkages – backward linkages related to services, and potential forward linkages related to transformation, infrastructure development	Concentration and centralization of income/wealth – low employment, social inequality and impacts on the structures of consumption and production	Policy *distortions* due to "populism" and/or "corruption" (which implies the existence/availability of a *non-distorted*, neoclassical alternative)
Markets/demand – for services and consumer goods	Import promotion – available foreign exchange and appreciation effects on the exchange rate	More risk of conflict

Weaknesses of the debate

- Undoubtedly, amongst economies that rely on natural resource based exports (in particularly, but not exclusively, oil, natural gas, and coal producers), conditions that are consistent with descriptions of blessings or curses can be identified. However,
  - To what extent there is a clearly identifiable pattern of cause/effects that trace “blessing” or “curse” effects to natural resource endowments?
  - Is the blessing/curse narrative theoretically sound and sustainable, an does it provide a good enough line of inquiry into the blessings and curses of the economies?
  - Are other social, economic and political contexts/dynamics in place that may be of primary relevance in explaining the structures of social accumulation that determine the role of natural resources and their effects?

Weakness of the debate – evidence

- Saad-Filho and Weeks (2013) look at a sample of 29 countries for which data is available between 1980 and 2010 for the purpose of the analysis of the curse. These are the UNCTAD defined 12 major petroleum and natural gas exporters (share of hydrocarbons in merchandise exports equal or superior to 50%, and share of world exports equal or higher than 1%), to which they add other 17 whose share of petroleum or natural gas in merchandise exports exceed that defined by UNCTAD or were large global producers during the period. The oil/gas share of total exports of these countries varies from 54% (Cameroon) to 100% (Brunei). The sample excludes developed countries (certainly not cursed), large producers that are not exporters (export channel not in operation), and countries with recent discovery of oil/gas riches (not enough time and data).
- In 1980/90, 17 of these countries experienced significant decline in per capita income, but most reversed that trend in 2000/2010, when 16 countries achieved moderate to high rates of growth of per capita income.

Weakness of the debate – evidence

- For the countries with data available on income inequality since they begun the oil/gas boom, only in Nigeria trends in inequality and the increased share of oil/gas in total exports move together upwards. It does not prove causality, only that the two variables move in the same direction. In Indonesia and Mexico, inequality was lower during the pick of the oil boom, in Venezuela there is no identifiable pattern. In any case, inequality, measured by the Gini coefficient, is high in all of those countries, but there is no statistical pattern linking it with oil/gas boom.
- For countries with systematic data available for the entire period of analysis, half diversified their economies significantly and the others did not. In any case, 10 of the countries in the sample have small populations (less than 5 million), which is a known challenge for diversification away from some sort of natural resource dependence. Again, there is no clear statistical pattern linking diversification and resource-abundance, not to speak of a causal relationship.

Weakness of the debate – evidence

- Of all the countries in the sample with long histories of conflict and civil unrest, only in Nigeria there seems to exist a close link between the history of conflict and that of the oil industry, and that link may not be caused by oil but by other factors associated with social institutions, class structures, government policies and past tensions and conflicts of whatever nature, which structure the social, economic and political conditions under which oil extraction operates.
- Seven countries are authoritarian monarchies and half of the rest have long histories of different degrees of authoritarian regimes that precede the oil/gas boom. Hence, although several of these countries are governed in an authoritarian manner, there is no evidence that such regimes are the result, primarily, of the oil/gas boom.

Weakness of the debate – evidence

- This brief and narrow exercise raises three questions:
  - There is no clearly identifiable pattern to a "resource curse": performances are quite mixed and symptoms of curses and blessings may not be primarily related to natural resources.
  - There is no clear theory that can explain the "curse" (or blessing) (we will turn to this next)
  - There are different factors at play that may explain economic, social and political performance better and more reasonably than the pattern of exports, such that *"…countries that display symptoms of the curse may do so for reasons related to themselves, associated with their social institutions, class structures and government policies"* (Saad-Filho and Weeks, 2013), as well as associated with global and regional trends (beyond price volatility of exports) and challenges accruing from uneven development (Mandel, E. 1980. Late Capitalism. Verso Edition: London), which we will examine later in relation to Mozambique.

Weakness of the debate – theoretical and methodological fragilities

- The weakness of the "curse" hypothesis (Saad-Filho and Weeks, 2013):
  - Definition of "resource abundance/rich" is difficult and vague and may lead to spurious results: less developed countries, under historical conditions that produced uneven capitalism globally, are more likely to have higher natural resource based output or exports/GDP and natural resource based exports/total exports, and maybe more prone to different problems, such as economic imbalances, vulnerabilities, civil unrest, and so on. These are *"…instances of coincidence masquerading as causality, providing spurious support for the curse."*

Weakness of the debate – theoretical and methodological fragilities

- Clear specification of resource abundance creates contradictory results: (i) if abundance is defined as the weight of natural resource exports on exports and on GDP, the curse is likely to be confirmed, because the definition introduces bias in sample selection, by choosing countries that are more resource-dependent (which includes those that have failed to diversify) and countries that are less developed (which tend to have less diversified economies); (ii) but defining resource-abundance by total output, total reserves, reserves per capita or exports per worker is likely to reject the curse and confirm the blessing, because the bias now tends to favour countries that may have succeeded in expanding production and retaining the gains from natural resources. The hypothesis claims that adverse effects, the curse, are the result of rents generated by primary exports, but rent-based measures have failed to support the curse and may have supported the blessing instead.

Weakness of the debate – theoretical and methodological fragilities

- Causality: the studies seek to demonstrate that resource abundance is not only correlated with, but is the cause of poor growth, poor export diversification and so on. However, even if this correlation could be demonstrated (bear in mind problems with definition of resource abundance, above, which makes it difficult to decide what correlates to what), there is no proof of causality: poor growth could, instead, be the cause of reliance on natural resources (rather than the other way around, as predicted by the curse hypothesis), or be the effect of other problems, such as a Washington consensus type structural adjustment program.

- Unreasonable and contradictory assumptions: the hypothesis claims that public revenue in resource-rich countries is more reliant on rents than on taxations, giving the government greater autonomy from pressures for political and economic reform. At the same time, the curse hypothesis claims that governments in resource-rich countries are vulnerable to pressures form a rent-seeking private sector and populist pressures for redistribution through excessive social spending. While there is no theoretical and logical reason for direct taxes to be absent because of the presence of royalties and export taxes, and for the absence of direct taxes to reduce government accountability, it is contradictory to make this claim and then to claim that the unaccountable government is both autonomous but vulnerable and responsive to rent-seeking pressures (for financial or for social gains).

Weakness of the debate – theoretical and methodological fragilities

- Irrational rationality: rational, utility maximising individuals organise to pursue their interests that, in resource-rich countries, take the form of rent-seeking, sough through predatory behaviour triggered by the competition for rents, which triggers the curse. Quite apart from the question of why should rational individuals not learn to behave differently to avoid the curse, this inference is devoid of meaning if it is not placed in the specific, historical conditions of accumulation of each country. However, when it is placed in that context, export patterns become secondary to other sources of conflict, such as class, gender, religion and others.

Weakness of the debate – theoretical and methodological fragilities

- The macroeconomic effects: the curse hypothesis claims that a sudden and large increase in inflows of foreign currency due to a natural resource boom produce a significant exchange rate appreciation, which, in turn, lead to erosion of competitiveness of other exports, an increase in inflation due to the higher demand for non-tradable goods and services, and an increase in imports of non-boom goods and services and potential trade deficit. These effects are more severe and disrupting if the boom is only temporary and/or volatile.

Weakness of the debate – theoretical and methodological fragilities

- However, quite apart from the fact that the division of the economy into tradable and non-tradable sectors (which is important for the macroeconomic curse analysis) is conceptually flawed, there are several other problems with this model.
  - Real appreciation of the exchange rate may help firms that rely on imported components to assemble goods for export, as imports become cheaper.
  - Economic growth in developing countries is often associated with more than proportional demand for money, as financial depth also grows, which enables the economy to absorb some of the rising money supply while avoiding inflationary pressures.
  - The model assumes perfectly competitive conditions, which imply full employment of labour and other resources and an external balance, which is unrealistic for most economies, let alone least developed ones, such that there might be significant opportunities for increase in prices and production of non-boom tradables (hence, exports of non-boom goods and services), as long as import are not prefect substitutes for domestic goods.

Weakness of the debate – theoretical and methodological fragilities

    - Windfalls can help developing countries to address constraints on growth and diversification, namely availability of additional foreign exchange, supply of savings and fiscal sustainability. If the economy expands in a diversified manner, there is no reason for inflationary pressures to emerge out of sudden inflows of foreign exchange.

- Does this critique of the 'curse' discourse dismiss the evidence that many so called resource-rich countries have not fared well with respect to economic, social and political performance over long periods of their histories? No, not at all. What it does is to change the questions of inquiry, from "…why natural resource wealth has fostered different political pathologies…", to "…what political and social factors enable some [so called] resource abundant countries to utilise their resources to promote development [however defined] and prevent others…from doing the same." (Saad-Filho and Weeks, 2013).

- More importantly, though, it calls for a different approach that emphasises the relevance of understanding the historical conditions of capital accumulation that lead to and emerge from natural resource based development, and the challenges of economic transformation.

A political economy perspective – what is this?

- The significance of "the economy" in any particular society or era is in itself historically specific, depending on the particular configuration of social relations and material conditions in and through which society is organized. In other words, the mode of production encapsulates the specific historical conditions and meaning of "the economy" in each epoch. This does not mean economic determinism, because (i) they encompass social, cultural, political, economic and ideological dimensions; and (ii) are historically specific, not only in general with respect to a mode of production itself, but also more specifically with respect to concrete historical trajectories and stages of development
- In this view, the study of capitalism is the study of the its system of capital accumulation, this is, of the social, economic, political, institutional and cultural dimensions of the expansion, changes and evolution that take place within capitalism.

A political economy perspective – what is this?

- What is the accumulation of capital?
  - Accumulation of capital can be defined in three different but inter-related ways: (i) the expropriation and reorganization of resources and labour and their concentration under the control of capital, which involves the separation of labour from the ownership and control of main means of production and their transformation into wage workers; (ii) the expansion of productive capacities, and, at the same time, exclusion of many social groups from the access to and benefits from such capacities, except as labour or casual labour; and (iii) the expansion of the capitalist organization of production within the society (through privatization, public/private partnerships, leading to increasing commoditization, including that of labour power) to areas/sectors/activities where capital was excluded from before, like all non-economic activities that are crucial for social reproduction of labour and capital (and, therefore, transforming public into private goods and services, thus creating new profit opportunities for capital while excluding social groups, particularly the poor, from access to such goods and services). How these interact, and what multidimensional society emerges from such interactions, and from the tensions and contradictions inherent to them, are objects of the political economy study of "the economics".
- Hence, our study of "natural resources" will proceed with a focus not on the resources but on the system of capital accumulation in specific historical conditions. For this, we will turn to the Mozambican experience.

Natural resources and capital accumulation in Mozambique

- We have no time and there is no reason to study in detail the Mozambican economy for the purpose of this presentation. However, what we are going to do depends on research done elsewhere, whcihc has been published. For those interested in more detail, I can suggest some links to additional literature, which will introduce you to the Mozambican dilemmas and paradoxes, namely: http://www.iese.ac.mz/lib/noticias/2015/CNCB_ROAPE.pdf, http://www.iese.ac.mz/lib/publication/cad_iese/CadernosIESE_01_CNCB.pdf, http://www.iese.ac.mz/wp-content/uploads/2016/07/CNCB_PorosityAccumulation_PARI-FES-Workshop.pdf, http://www.iese.ac.mz/lib/noticias/2015/CNCB_GrowthPorosity.pdf, http://www.iese.ac.mz/lib/noticias/2013/CNCB_CAADP_PEAPAConference_18-20.03.13.pdf, http://www.iese.ac.mz/wp-content/uploads/2016/12/Mozambique-and-Greece-PDF.pdf, https://www.youtube.com/watch?v=YXwGy9azhcw.

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- What we want to do is to summarise how “natural resources” became relevant and came into play in the process of capital accumulation in Mozambique, and how the specific historical conditions under which the primitive capital accumulation takes place are more important to explain successes and failures of the Mozambican trajectory than any ‘curse’ related to minerals themselves.

- Mozambique is still a low income country, which is, for historical reasons associated with its role in the world capitalist economy under colonialism, a latecomer in terms of formation of its own, domestic capitalist classes. This process, accelerated from the early 1990s, was confronted with particular historical conditions, which are:

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- The existence of particular dynamics of capitalist accumulation created under colonialism, a state that post-independence was forced to expropriate the expropriators and became the main owner of the main means of production, the collapse of the soviet model of bureaucratic socialism which undermined the collective ideal of the liberation struggle, the end of the apartheid, which unleashed the economic giant of the region to globalise, political elites without capital and without a productive basis, and a economic policy framework framed in terms of the Washington Consensus.

- So, the process of primitive capital accumulation was mostly confined to creating a Mozambican capitalist class within the existing structures of accumulation. This had to be done while mobilising capital that the economy did not have and facing fierce competition form foreign capital, particularly, in a first stage, from South African industrial, mining-energy and financial capital in the process of glabalizing.

- So, the State became both the facilitator and promotor of massive expropriation, but also the target of such expropriation as it controlled the main means of production. State supported private accumulation of capital by domestic, emerging capitalist groups required the reorganization and change of property and control of resources, which implied a massive exercise of expropriation of the State.

Natural resources and capital accumulation in Mozambique

- There were four waves of what we call state expropriation. The first was a massive privatization program that transferred more than 1,500 state owned companies and state assets in other 1,500 or so companies to private hands. More than 80% of these went to Mozambicans, mostly associated with veterans of the liberation war, with an implicit subsidy that meant that the agreed prices of transfer of property were rarely paid in full. Most of these firms were obsolete and 40%-45% went bankrupt within the first 2-3 years after privatisation. This wave created a class of owners of assets, largely obsolete and mostly unproductive, and that had no capital or experience. The second wave of state expropriation was the attraction of foreign private capital to provide emerging, national capitalists with a more effective framework for accumulation of capital (capital, markets, technology, the organization of production chains, and so on). So, natural resources were the attraction, coupled with policies that target lowering of the costs and risks, increasing expectations on returns, and linking domestic capitalists to multinational firms (cheap resources, large concessions that created the space for speculation and faster recovery of investment costs, public guarantees for private investment, massive public infrastructure investment, tax incentives, public private partnerships). The third wave of state expropriation was the utilization of the debt space beyond its reasonable limits in order to keep the bubble expanding and foreign capital flowing in in large scale. Mozambique became one the three preferred countries in all of SSA for financial capital. The utilisation of debt was also made possible because of the huge debt space created by 25 years of financial austerity imposed by the IMF, which thought Mozambican authorities how not to spend but not how to spend wisely. Debt emerged from cheap resources and fiscal incentives, on the revenue side, and, on the expenditure side, government engagement with an ambitious investment program on infrastructures and services for the minerals-energy program, public private partnerships and public guarantees of private debt. The fourth wave, a direct consequence of the third, is the current social austerity program to adjust to the debt crisis, which also contained and constrained expansion of accumulation of real capital, reduced the responsibility of capital and the State for the reproduction of labour, transferred such responsibilities to the families and created new market opportunities by expanding privatization into new areas of social life (education, health, transports, security, social protection, and so on)

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- In the process, the Mozambican economy produced all the symptoms of ‘curses’ and ‘diseases’, and could well be described as a rich economy (at least according to concepts such as resource abundance and fascination for international, speculative financial capital) with poor people, or, in other words, a great and robust economy doing very well except for its people:
  - The exchange rate was kept overvalued for long periods of time, while the IMF was willing to finance foreign reserves. This allowed imports of cheaper consumer goods, such that it became know as the anti-riot exchange rate policy;
  - The economy became even narrower than before, in terms of variety of activities, their concentration on the primary stages of production and weak domestic articulation, complementarities and linkages, because economic policy was geared towards promoting the minerals/energy complex, the source of inflows of large foreign capital;
  - Fast growth became, over time, highly inefficient in promoting employment and poverty reduction;

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- The domestic financial system was crowded out by public debt, as the government started to borrow to pay the service on and increasingly more commercial and speculative interaction with international capital markets, and public debt became the dominant business of the domestic commercial banks and of the stock exchange.
- Government and large private business blended together in the boom sectors, in minerals and energy, and other sectors were crowded out.
- And, at the end, as is often the case, the bubble exploded and imploded, and the process of capital accumulation was affected. Social austerity is, now, one of the mechanism by which capital accumulation may be restructured and then crisis may be passed around, and debt restructuring may be a tool in the making to accelerate and stabilise this process.

Beyond natural resources, good governance and social transfers

- What did these ‘curse’ effects had to do with minerals? Very little. It was not the minerals, but the dynamics and purpose of capital accumulation in its specific historical contexts, that determined the outcome. One can argue that those were the policies adopted to promote the minerals-energy complex, which was the option followed given that Mozambique is well endowed with mineral-energy resources. This is not satisfactory, though, because the way natural resources were brought to economic life was contingent to the main goal of economic policy, to promote a national class of oligarchs.
- The literature is abundant in terms of advice about how to “good govern” resource booms for the sake of long term, sustainable and successful transformation of the economy, including when those non-renewable resources come to an end.

Beyond natural resources, good governance and social transfers

- The point of the presentation, though, is that "what to do with resources and how to do it?" is not the starting question. We argue that it is never the starting question. Questions such as "how to create our capitalist classes in face of expansion of regional and global capitalist hegemons?", or "how can the economy change and sustain reproduction and accumulation while creating massive employment and domestic demand", or, more simply, "how to produce and circulate cheap and diversified food", or "how on earth can we deal with the debt crisis and still exist at the end" are the ones that decide which resources to mobilise and deploy and how. Hence, we argue, it is "the problems", rather than "the resources", that work as primary triggers of the processes of social, economic and political change, and those problems identified in such questions, as well as the answers that are found, reflect the tensions and conflicts within the social structures of accumulation.