

The Oil Curse

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Why Oil Rich countries are Politically Unstable

Introduction:

Historical evidence shows that rather than reducing poverty and income inequality, oil, in fact, has caused conflicts and political instability.

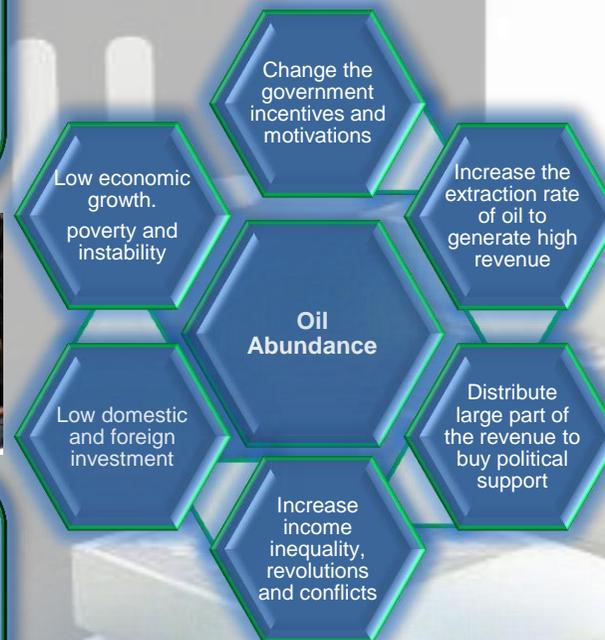
After discovering oil, the developing world has become less wealthy, less democratic and less peaceful. From 1980 to 2006, per capita income fell 6% in Venezuela, 45% in Gabon and 85% in Iraq.

In addition, many oil producers have been involved for decades in civil wars, like Colombia, Nigeria, Sudan and Iraq. Moreover, oil rich countries tend to have many social classes with a tiny minority earning millions while a vast portion of the population wallows in abject poverty.



Motivation:

The current high oil prices, the Middle Eastern countries situation and the Arab Spring phenomenon have made the question of whether there is a link between the wealth generated from the natural resources and government stability more timely than ever.



The Contribution:

The previous studies have analysed several possible causes of this poor performance of oil rich countries but have yet to find a satisfactory explanation.

We argue that revenue from the natural resource sector generate political incentives which influence the resource extraction path of a country and create inefficiency.

Therefore, we develop a political economy model of oil extraction and analyse the political incentives for the leaders and how these incentives could cause adverse consequences for the economic development in the oil rich countries.



The Findings:

The study shows evidence that politicians tend to over extract oil relative to the efficient extraction path in order to generate large oil revenue that could guarantee their political stability and allow them to remain longer in power.

This oil wealth is distributed quickly and unevenly among political supporters in order to buy their support. Such inequalities, create an explosive expectation-gap among the population and become the fuel for revolutions, uprisings, and civil wars.