

The real curse of oil

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Venezuela, Saudi Arabia, Nigeria...oil is curse not blessing for developing nations. Its real impact is to intensify corruption, civil conflict, and political patronage. A solution requires practical cures not conspiracy theories. Iraq is the place to start.

Was Iraq a war for oil? Was Afghanistan a war for oil? Such questions, evoked by the articles by Lutz Kleveman and Rosemary Righter on [openDemocracy](#), imply a grand conspiracy. But the truth is less dramatic.

It's true that some wars are fought over oil, but these tend to be relatively small and regional disputes. The suffering that oil inflicts on people is due not to manoeuvring between Russia, China and the United States: it is caused by corruption and local conflict over what Opec's co-founder – Juan Pablo Perez Alfonso, former energy minister of Venezuela – called 'the devil's excrement'.

The reason that Central Asia has acquired even the remotest plausibility as an oil supplier is because so many of the alternatives are almost as alarming. The key oil producers today include Venezuela, on the brink of civil war; Saudi Arabia, a repressive state and

home to many of the al-Qaida hijackers of 9/11; and Russia, the playground of the oligarchs.

Look elsewhere for oil and you will find it in Iran and Iraq, or in war-torn Angola, or Nigeria, poorer now than in 1960. If only there was oil in South Korea or Switzerland, few outsiders would even think of looking in Kazakhstan, one of the most corrupt and brutally run nations in Asia.

But South Korea or Switzerland are fortunate not to have oil. If oil had been discovered there instead of in the Middle East, there is a good chance they would have suffered and we would now be praising countries like Iran and Iraq for their economic dynamism and their political stability.

Oil is a curse for developing economies. Lifting the curse might improve the world's energy security. More importantly, it might bring hundreds of millions of people out of poverty and political chaos.

Iraq is a case in point. Currently reconstruction efforts are focused on security. The reasons for this are understandable. But even if the security problems were solved tomorrow and the oil started to flow, Iraq's problems would not end there.

Drowning in the devil's excrement

When Iraq begins to export large quantities of oil, the real exchange rate will appreciate, making it tough to export anything else. The main burden will fall on agriculture, and people will go hungry unless food is imported and distributed fairly. Manufacturing will also suffer, and with it the main chance for Iraqis to develop commercial and technical experience. The authorities will no doubt talk about diversifying the economy, but few oil-rich states have ever managed this trick.

Because the oil price is volatile, government revenues will also be volatile, making the economy unstable and difficult for entrepreneurs to operate in. The government will probably spend the money on a large bureaucracy whose members cannot safely be sacked, or "invest" it in crazy projects that will never be completed. In Nigeria, for example, the Ajaokuta steel complex was started in the 1970s but has never produced any steel.

This miserable picture is a fair one, because the fastest-developing countries are almost all poor in resources. In fact, it is probably too benign a view. As well as stunting economies, oil eats away at political systems: remember Saudi Arabia, Russia, Venezuela, Nigeria, and Angola - or Iraq itself. Saddam Hussein could never have held on to power without control over oil revenues. Other resource-rich states could hardly do worse but still tend to suffer corruption, underdevelopment and even civil war.

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The transfer solution

UN agencies such as the World Bank are trying to work out solutions to the problem, but since the World Bank

is obliged to focus only on economics, not politics, there is a limit to what it can achieve.

There is an approach which would go a long way to saving Iraq from the curse of oil. As the Iraqi governing council drafts the country's new constitution, it should give all adult Iraqis an inalienable right to a proportionate share of public oil revenues. Direct transfers of oil money are rarely seen, although Alaska is a notable exception. Iraq, with its constitution a blank slate, is an ideal candidate for the policy. (It was proposed for Nigeria by economists Xavier Sala-i-Martin and Arvind Subramanian, but sadly the Nigerian government has no reason to give up control of its oil revenues.)

Direct transfers of all oil revenue to citizens would solve a number of problems. Individual citizens are likely to spend their own money more wisely than weak governments would - it is hard to imagine their clubbing together to build an Iraqi version of the Ajaokuta steel mills, for instance. Individuals are also less likely to raid the cookie jar when times are good: most people understand the value of savings.

Direct transfer would undercut the politics of patronage, because Iraqis would have an automatic right to oil money, defensible in the courts. Possibilities for corruption would not go away, but they would be limited.

To raise revenue, the Iraqi government would have to behave the way serious governments do, setting up an efficient system to tax its citizens. Broad taxation is more likely to lead to better governance, because it requires an accountable relationship between government and people.

It would be hard but not impossible to implement this approach. One necessity would be decent electoral rolls; another would be a bank account for all citizens. Iraq is a long way from either, but since it needs both to develop economically and politically, the revenue transfer might add much-needed impetus.

A successful cure for the curse of oil in Iraq would do more for energy security than all the geopolitical chicanery the conspiracy theorists can imagine. More

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importantly still, it would show to the people of resource-dependent countries across the world that there is a better way for their governments to use resource wealth. Meanwhile the United States and

British governments should take note: if they plan to build a nation, they will need firm foundations.

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