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The Resource Curse

One serious problem facing many places the world over is a phenomenon called “The Resource Curse,” is causing the most damage in smaller, undeveloped countries. This “curse” is actually a theory and an observation that countries with an abundant amount of wealth in natural resources experience ill effects of having such wealth. These problems at face value are both political and social, and all of which stem from economic impacts. Over the course of the term, we have watched videos about what the resource curse is and how it affects countries all over the world. The effects have both a microeconomic and macroeconomic effect on economies in these countries, and while in many ways these countries are very deeply flawed because of this, there are many ways to fix the problems at hand. If these problems are solved, the effects could be more impactful than the culmination of all the negative effects of the curse, and once and for all end something that causes so much pain and devastation the world over.

As stated above, the majority of countries that feel this “resource curse” are underdeveloped, third-world countries with less than honest governments and an albeit flawed economic system. When countries as poor as many of these countries are, there is not a lot of growth to be desired in their economic system. However, if countries happen upon something valuable in their land, such as oil, precious timbers, coal, or diamonds they have both a miracle and a very serious problem. Most of these countries have extremely precarious economies so when these countries go from rags to riches overnight, there is no way to find a secure way to make sure everyone benefits from the abundance of wealth. However, while this is a problem for the countries’ citizens, there is an even bigger looming problem they face.

Countries without immediately available funds to finance the extraction and collection of these resources find themselves in a difficult position, a lot of money, and no way to access it. This is where economists really start to see a turn. Big business with interests in oil and other natural resources, such as Texaco, are like lions looking at a gazelle, with the countries taking the roll of the later. These businesses come in looking to finance the countries growth by providing the governments with the money and tools to retrieve their vast abundance of whatever resource is found. Businesses have a stake in this also, as most work out contracts with the governments to be able to run extraction sites, take part of the profits, and run the movement of the resource. Situations like this leak connections to microeconomic principles, culminating in ill effects on the overall economy of the countries.

The guiding principles that we learned about are present in vast amounts, with each one having a special connection to the mounting economic problems in these countries in one way or another. The 3rd principle is one that is very large at this point of time for these countries and the businesses buying into them. The principle states that people respond to incentives in predictable ways. This is expressed in how willing governments are to relinquish their land and resources to companies without thorough planning. They do this because they act as most people would act when offered a large amount of money, they take it. They don’t think about the future implications, they only consider the money and the deal at face value and what the immediate funds will do for them. This, along with the 5th principle, that decisions often have unintended consequences, breeds severe trouble for many countries. Many of these decisions do have unintended consequences, such as pollution, land and asset loss, and political disruption from the influx of greedy, corrupt politicians. A great example of this comes from the BBC Four video, *The Curse of Oil-1 Rich and Poor*, when Texaco found and bought large portions of oil reserves in Ecuador, and the Ecuadorian government was happy to offer it, as Texaco promised the government and the nation’s people would see benefit and wealth. It’s been decades, and Ecuador has exported over 300 million barrels of oil with a total worth of $50 million. Much of this goes directly to Texaco and the higher classes, with the normal people in Ecuador just as poor as they’ve always been. In addition to misappropriation of funds, the Texaco company has damaged a large portion of Ecuador’s natural habitats by leaving open air oil pits, ones that where pushed off to the Ecuadorian oil companies when someone demanded a responsibility claim and an immediate cleanup. This is just one example of an extremely flawed system that is in more and more countries throughout the world. Right now, resources are the most valuable commodity the world has, but they should not be obtained and taken advantage of at the cost of people’s lives.

The biggest thing in the take away from what happens with these countries is the economic impact these resources has. When problems in the economy rise, they give way to other problems that are equally as bad, if not worse. When countries discover these resources and both big business and the government take advantage of them, only benefiting themselves, the country that owns the resource suffers. This suffering can come in the form of severe poverty, malnutrition, and even death for many natives in the land where just miles away, people are making millions off of a resource that everyone should be benefiting from. The big businesses and governments, who are less than honorable, outsource jobs, disregard the wellbeing of their countries economy in favor of living it up reveling in their wealth. The economic process is not at all at work here in these countries and there are serious ramifications from that. Without a stable economy, no one in the country who doesn’t have access to resource wealth is left with nothing. Corruption in the government runs rampant and many big businesses claim no responsibility for anything done. This opens the door for these problems to go from a microeconomic to a macroeconomic scale.

The macroeconomic effects that come from situations like this can lead to even worse problems for countries, such as sluggish economic growth, which factors into it inflation and unemployment. People don’t see any positive effects come from the most valuable thing their countries produce when the resource curse is in full effect. While governments try their best, if they are not overgrown with corruption, to fix things when they hit this level, it only makes things worse. Some governments try to curb these problems by influencing the markets and the overall economy in their countries. This was seen in the video on shortages in Venezuela. It described that most Venezuela was wealthy, but a lot of it is filled with poverty. This comes from Venezuelan oil wealth, with Venezuela having the largest oil reserves in the world. Since the government is starting to see people aren’t getting what they need as prices they need because of a crippling inflation rate, they decided to put government price ceilings into place. These ceilings set market price of many basic goods at an artificially low price, causing demand for them to skyrocket, leading to very severe shortages for the Venezuelan people. Over time since they were put into place, the country is devolving into an economic, and by extension, social and political wasteland. People are fleeing the country, others are gunned down in the streets, and the government is looked on as a tyrannical suppressor. This all relates to how severe this resource curse can get when left unchecked and in the dark.

To be able to help these countries more in their development and to also help them get past the lurking beast that is the resource curse, governments need to work to stay corruption free and disallow the amount of pull big businesses have within their resource pools. They also need to work hard to diffuse the money coming in from the selling and extraction of these resources to make sure everyone in the country is able to feel at least some of the immense wealth that natural resources bring in. Also, being able to have a functioning economy will mean that countries will need to repeal any type of government price controls, as economies function much better with free markets. Instead of any type of controls, they should work to facilitate free and profitable trade with other industries within the country, and also work to make the resource more readily available for buyers and sellers within the country that would be able to profit from exports, instead of allowing big businesses and the government itself too to control main exports and most of in-country trading. There are many ways to counter this ill fated curse, but deciding what to do is in the hands of the country itself.

In conclusion, the general population of the world might not know or be concerned with what the Resource Curse is or what it does to developing countries, but it’s a serious matter that should not be taken lightly. Throughout history people have lost themselves in riches, dating back to the beginning of time. The pull of riches and glory, especially from something freely given by nature is almost completely irresistible. However, when this feeling arises in new nations, they should stop for a moment and weigh and consider all their options before roping themselves into something that could implode their country. This can be achieved by considering their economic options on how to extract and use the resource, looking at and remembering the economic principles that are always at work, and make sure that both big business interests and government control, regulation, and corruption stay completely out of the equation. If left to its own devices and worked alongside instead of being controlled, the economies in these countries could flourish to immeasurable levels. Hopefully countries already affected can find some peace and finally extinguish the Resource Curse from their countries once and for all.