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Natural resources, capital accumulation and the resource curse ☆

Richard M. Auty

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Abstract

Early concern by economists for the effect of natural capital on economic growth gave way to complacency and neglect during the nineteenth century. Evidence has emerged, however, that since the 1960s the economic performance of low-income countries has been inversely related to their natural resource wealth. This relationship is not a deterministic one so policy counts. SEEA can help improve the policy and performance of resource-abundant low-income countries by reinforcing the rationale for the sound management of natural resources and also by providing an index of policy sustainability in the form of the net saving rate. This policy index, along with other measures such as a capital fund for sterilizing the rent, initiatives to increase the transparency of rent flows and the rigorous evaluation of alternative uses of additional public sector revenue can improve the efficiency by which natural resource rent is transformed into alternative forms of capital to sustain rising social welfare. Chad and Mauritania provide case studies to illustrate how SEEA and net saving can be used to diagnose policy failure and improve economic performance.

Section snippets

The neglect of natural resources in models of economic growth

Although classical economists voiced concern in the early-nineteenth century that natural resources, notably land, might constitute a limit to per capita GDP growth, the profession has tended to regard natural resources as generally less important to economic growth than capital and labor. By the close of that century most believed that society could overcome the Malthusian population trap and the law of diminishing returns, so that sustained economic growth seemed likely, if not assured.…

Measuring the relative importance of natural capital

The emergence of environmental accounting tended initially to reinforce mainstream economic thinking on natural resources. For example, Pearce et al. (1996) argue that if governments correct market failure then the apparent paradox of achieving sustainable development from finite resources can be realized. It requires the current generation to pass on to future generations either the same total stock of capital or a larger stock, by substituting produced and human capital for the diminishing…

Policy implications from SEEA for mineral-rich countries

Indonesia is a notable exception to the resource curse as a country that sustained rapid GDP growth and falling poverty for more than three decades. Its development strategy, like that of Malaysia exhibits three positive characteristics, namely (i) the priority accorded to sound macro-economic management (Hill, 1996); (ii) control (but by no means elimination) of rent-seeking activity (Auty, 1990, Macintyre, 2000) and (iii) an explicit concern to raise the welfare of the rural poor, mainly by…

Potential policy applications: Chad and Mauritania

Chad and Mauritania are two low-income Sahelian countries embarking upon a phase of oil-driven growth with similar per capita endowments of oil reserves, similar-sized economies and expectations of oil revenues of similar proportions to their GDP. Mauritania, however, has less than half the population of Chad and its per capita income is correspondingly higher. The net saving rates (Table 6) indicate that Chad's economy suffers from a low capacity to save, especially during adverse weather, but …

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