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Schubert, Samuel R.

Webster University, Institute for Human and Social Studies, National Defence Academy, AT

1 August 2006

Online at <https://mpra.ub.uni-muenchen.de/10109/>  
MPRA Paper No. 10109, posted 21 Aug 2008 01:15 UTC

## REVISITING THE OIL CURSE: ARE OIL RICH NATIONS REALLY DOOMED TO AUTOCRACY AND INEQUALITY?

Samuel R. Schubert

*National Defense Academy in Austria  
Institute for Human and Social Studies  
Sitftgasse 2a, 1070 Vienna, Austria  
[samuelschubert30@webster.edu](mailto:samuelschubert30@webster.edu)*

### ***Introduction: Seeing oil as a curse***

There is an adage about wealth and democracy that says “the more well-to-do a nation, the greater the chances it will sustain democracy.”<sup>1</sup> Accordingly, one would expect that nations rich in natural resources, and particularly those with large deposits of oil – a clear absolute advantage – would shine far beyond all others as beacons of democracy and freedom.

Unfortunately, nothing seems further from the truth. Among the world’s top ten oil exporters, only Norway and Mexico can be realistically described as democracies, while three others, Nigeria, Russia, and Venezuela, demonstrate a mere semblance of freedom. Making matters worse, technological advances and energy driven politics are forcing major Western consumers to seek out new sources of petroleum. Reserves are increasingly being found, and exploited, in the world’s poorest countries. Today, oil and gas constitute at least thirty percent of total export revenues in some thirty-four less developed economies, none of which can be classified as democratic or free. As Martina Ottaway wrote in the New York Times, “oil and democracy do not mix.”<sup>2</sup>

Indeed, studies undoubtedly show that oil dependence leads to a skewing of political forces. It concentrates production to geographic enclaves and concentrates power into the hands of a few elites. It becomes a fisherman’s market for rent-seeking behavior, where those with money jockey for positions and influence to acquire lucrative contracts, the revenues from which are used to further bribe and manipulate those in power. Consequently, those in power secure the positions of their benefactors, creating a vicious circle of corruption and patronage, secured from open inspection of a free press, public accountability, or standards of international business and political practice.

Countries that depend on oil for revenue bask in wealth, but overwhelmingly suffer what the Economist has called a “poverty of policy.”<sup>3</sup> Oil rich states manifest some of the greatest inequalities imaginable. Besides lacking transparency, press freedom, and accountability, they tend to have stratified social classes with a tiny minority earning millions while a vast portion of the population wallow in abject poverty. Joseph Stiglitz, the Nobel Prize winning economist and former chief economist of the World Bank called them “rich countries with poor people.” His observation is supported by many the development and economic communities. Already ten years ago, Jeffrey Sachs, later to head the U.N.’s millennium development project, showed that countries rich in resources grew slower than those without.<sup>4</sup>

Adding to Sachs’ thesis, Terry Lynn Karl has shown that the situation is even worse than first thought. Major oil producers such as Algeria, Angola, Iran, Saudi Arabia, Venezuela and even tiny Trinidad Tobago have experienced fundamental declines in per capita incomes in recent decades. In Nigeria, 70% live on less than \$1 a day in a country that has earned over \$340 billion in oil revenues since the 1970s.<sup>5</sup>

Why is this happening? How is it possible to be so rich, yet so poor? Is this phenomenon, known as the “oil curse,” or in social science parlance, the “resource curse” truly to blame? Does oil really impede democracy and economic growth?

### *The debate*

Despite all the empirical evidence pointing to oil as the cause of great misery, there are also examples like Norway where oil has not destroyed democracy and Indonesia, which has weaned itself away from its negative effects.

Terry Lynn Karl defines the “resource” or “oil curse” as it is limited here, as “the inverse relationship between high natural resources [oil] dependence and economic growth rates.”<sup>6</sup> If this is true, then indeed oil is a curse. Supporters of this theory are, however, not without their critics.<sup>7</sup> For others, like Harvard economist Danni Rodrick, Nancy Birdsall and Michael Alexeev, the standards by which oil curse supporters calculate economic growth are flawed. They ask the question: would the economic condition be any different in these countries, if they didn’t have oil?<sup>8</sup> Interestingly, their findings contradict the belief that oil is a curse.

Birdsall and Subramanian point to the fact that Indonesia experienced two decades of sustained growth before the 1997 financial crisis, despite Suharto's corruption and cronyism.<sup>9</sup> In their work, "The Elusive Curse of Oil," Alexeev and Conrad found that the long-term growth of oil dependent states is in fact positive. They criticize the widely used method of per capita GDP percentages as a basis to judge growth over time, pointing out that small countries that initiate oil exports would naturally have high ratios of per capita GDP and, hence, skew the statistics significantly. They add that oil producers tend to grow slower over longer periods due to the naturally slow growth of oil output, concluding "oil has a positive impact on per capita GDP."<sup>10</sup>

Despite such studies, however, the consensus among development economists, political economists, and political scientists is that oil impedes development. Karl and Gary point out that countries dependent on oil as their primary export perform significantly worse than other developing economies across a wide range of economic indicators. At the very minimum, they argue, such countries should be faring much better given their enormous revenue streams.<sup>11</sup> Birdsall adds "throughout history; many countries with natural resources have fared worse than 'poorer' nations. In the seventeenth century, the Netherlands outdid resource-rich Spain ... [despite its gold and silver conquests] ... Similarly, Japan and Switzerland moved past Russia in the nineteenth and twentieth centuries. More recently, resource-poor countries in eastern Asia have surged ahead of resource-rich Argentina, Mexico, Nigeria, and Venezuela, all of which repeatedly went bankrupt or lapsed into political upheaval."<sup>12</sup> Karl adds in a later paper there are "almost no cases of successful development based on the export of petroleum."<sup>13</sup>

The arguments against the existence of an oil curse sound reasonable. The picture one draws when looking at oil-dependent countries today, however, is one of economic and political instability, conflict, militarization, corruption, poor governance, and dramatic inequalities. Even Birdsall and Subramanian admit oil dependence does tend to create significant inequalities.<sup>14</sup> Those inequalities lie at the heart of the oil curse, occurring at all levels of the political economy of oil-dependent states.

At first glance, it seems clear that oil and democracy do not mix. There are, however, notable exceptions like Norway, Canada and the United Kingdom that may

shed light on this phenomenon. All three were established democracies before they struck oil leading one to believe that path dependence plays a significant role. It could be that countries with strong institutions, rule-of-law and a strong tax system before the discovery of oil are better suited to survive the oil curse. In simple terms, the issue is not the oil, but the political and economic system that predated it. Supporting this line, John Judis wrote that unlike the West's developed democracies, newer oil-states avoided going through the arduous process of extracting taxes from a reluctant population, granting rights in return, and noted that Libya went from poor to rich overnight without any sacrifice from its population.<sup>15</sup>

Thus, we can identify the first question to ask when looking at oil-dependent states; what was life like before oil? Until Chad recently started pumping, it had gone through almost 30 years of civil war. Even after discovering oil, it remains one of the most corrupt, opaque, and unstable countries in the world. In Saudi Arabia, long before oil, the ruling family depended on tax revenues from the merchant class of Jeddah, an income source rendered redundant by oil.

Kuwait's economy before oil was based on pearls. The merchants who fished and shipped them abroad paid almost all the taxes that maintained the ruling Al Sabagh family. Not long following the discovery of oil in 1938, the merchants realized they were losing influence and demanded distributive rights on the revenues; the Sheikh would have nothing of it. His dependence on pearl taxes was over. Now there was oil. Using his newfound wealth, he disbanded the merchant's assembly, arrested those who opposed him, and 'poof,' the pearl merchant class disappeared. Not long, was too long for the merchants. To consolidate his power, the Sheikh then eliminated taxes, arranged jobs for all the merchants, provided free health care and education, essentially buying the opposition and making compliance more cost-effective than dissent.<sup>16</sup>

The stories of Kuwait and Saudi Arabia seem to show that oil has a tendency to hamper democracy, or at least foster the lack of it. But it would be difficult to argue that either the house of Al Sabagh or Saud was ever democratic. They were, however, dependent upon taxation, which in turn forced them to be accountable to at least a larger segment of the population than they were after oil became their primary source of revenue.

Some point to the case of Russia, claiming it suffers from the oil curse. Are

Russia's problems with democracy connected to its abundance of oil? William Tompson, author of "A Frozen Venezuela" thinks not, arguing that Russia became a rent-rich environment the moment it began its transition from Communism.<sup>17</sup> Lacking regulatory standards and a system of taxation, it jumped into a rapid privatization program.<sup>18</sup> Moreover, Russia came out of Communism with an enormous bureaucracy, a weak state, and virtually no civil society. Despite since becoming world's second largest oil producer surging 30% in production between 2000 and 2003,<sup>19</sup> Russia's economic and social woes can hardly be attributed to oil. On the contrary, as in the case of Norway, Canada, and the U.K., Russia retained the same structural qualities it had before becoming a primary oil exporter. It did not lose a taxation or regulatory regime. It simply never had one.

All of the aforementioned cases show that path dependence plays a significant role in determining the impact oil has on a political system. Where there are structured and powerful institutions in place predating oil dependence, the oil curse is less likely to take hold. Where such regimes do not exist, however, oil may very well doom a country. For large countries or solid democracies, this means positive outcomes, or at least, few to no devastating structural changes. For poorer, less developed countries, however, the picture is far less rosy.

### ***What about the poor? How does oil affect them?***

If a country is seeking rapid development, to escape the grips of poverty, oil is certainly not a blessing. Oil dependent states have performed 1.7% worse in terms of economic growth than non-oil states in recent years.<sup>20</sup> The numbers of people living in abject poverty in big oil-producing states like Nigeria, Venezuela, and Angola increased dramatically over the last 30 years of the twentieth century.<sup>21</sup> In short, oil exports as a revenue source for development don't seem to work. Most countries that have come on-line in the last twenty years are exhibiting increased poverty, not less, slower growth, not more, weaker institutions, and regulatory frameworks, not stronger.<sup>22</sup>

Whether through legal rent-seeking means or illegal methods like corruption, the vast infusion of oil wealth and the bad politics it brings tend to hamper economic, social, and political development.

Culpable in this story is the oil industry itself. Extracting oil is capital intensive, requiring a lot of money and few highly skilled laborers. For countries lacking both, the only source is abroad. The arrival of foreign oil companies and massive international loans creates the perfect rent-seeking environment that quickly imbues itself at every level of a nation's political economy, creating a virtual free market for corruption, patronage and inequality. In fact, there is virtually no better example for the interdependence of politics and economy than that with oil.

So, what do oil and its money do to a country? The ramifications are both economic and political. On the economic side, oil dependence and the volatility of oil prices on international markets lead to significant fiscal planning, spending problems and waste, leading to financial disaster when oil prices collapse. It also tends to cause currency instability, hamper trade liberalization and dramatically reduce the quality of public spending.<sup>23</sup> The revenue it generates when prices are high tends to cause what is known as "Dutch Disease." High oil revenues raise exchange rates, promote an adverse balance of payments on the cost of imported goods when prices fall, boost wages for skilled labor – ultimately pricing them out of the international market - and reduce the incentive to risk investment in non-oil sectors. In short, it kills the competitiveness of all non-oil sectors, squeezing out vital sectors like agriculture and manufacturing, leaving oil as the only functioning revenue source. Just one example includes Gabon, which since initiating the export of oil has seen its agriculture sector collapse; it is now entirely dependent on imported food.<sup>24</sup>

By stifling diversification, the economy becomes completely dependent on swings in international oil futures. At \$60 a barrel this means wealth, at \$10 it is a disaster. Diversification is an essential component to development. It promotes competition, inspires innovation, opportunity and investment, particularly of smaller business, the bedrock of a rising middle class. Just as the pearl merchants of Kuwait were squeezed out of their livelihood, countries awash in oil money focus all their efforts on a single economic factor. Along the way, workers increasingly move into oil related sectors, if they can. By failing to diversify their skills, however, they also become trapped in a cycle of dependence on oil. They fail to grow and in the process fail to modernize. Those that do acquire skilled jobs in the oil sector reap the benefits. Those that fail or cannot are destined to a life as second or even third class citizens.

This lack of labor and capital diversification is the death knell for any developing economy.

The enormous influx of cash resulting from oil revenues tends to foster wasteful, overzealous and imprudent projects ranging from man-made rivers to hillside resorts to presidential airplanes and massive infrastructure projects;<sup>25</sup> the latter, of course, being essentially valuable to the development of any country. Unfortunately, such efforts work so long as the price of oil is dramatically higher than the cost of its extraction. When the price falls, fiscal budgets go into deficit; countries start taking loans, leveraged against their oil reserves, and march unimpeded into debt.<sup>26</sup> Indeed, according to Karl, oil states such as Angola, Nigeria and Cameroon have tended to borrow faster and deeper than non-oil states to cover unexpected shortfalls in income.<sup>27</sup>

Moreover, the massive budgets available to countries exporting oil quickly become the source of interest for rent-seeking enterprises. Winning oil related and government contracts becomes the main goal of businesses, perpetuating the dive into a staple trap. In the process, it creates patronage, cronyism, and corruption and exacerbates inequalities across the economic and political spectrum.

It also kills taxes. For many, such a thought may seem appealing, but the loss of tax revenue further skews the government beyond a point of no return. When governments depend on taxes, they require the consent of the governed that holds them accountable for their actions, budgets, and ideas. Thus the loss of tax revenue, rather than being a positive, becomes a negative, as the government no longer has an incentive to care for the needs or desires of the people. When oil prices are high and revenues are strong, they can and often do setup mechanisms to buy off opposition and contain dissent through state employment as Libya reportedly did by employing 75% of the population in the late eighties or by financing compliance, as has been the case in Saudi Arabia's support of Wahhabi clerics and their schools.<sup>28</sup>

Finally, oil revenues, no matter how high, and no matter how valuable for infrastructure construction in its initial stages, tends to be front-heavy and leaves large sections of the labor force underemployed causing long-term and massive income inequalities.<sup>29</sup> The recent production of the Chad-Cameroon pipeline exemplifies this point. At first, thousands of laborers were hired to build the pipeline. Now in production, no more than a few hundred remain on the job, the rest left to migrate from



rural, formerly agricultural villages to urban environments where no jobs await them.<sup>30</sup>

Together, these forces constitute what Michael Ross<sup>31</sup> and others have called the “rentier effect,” oil states being “rentier states.” The rentier state theory argues that countries dependent on external rents, like oil, develop a different bond between governments and their citizens than those that rely primarily on taxation. Such states, the theory argues, are less likely to be democratic than those that are tax-reliant.<sup>32</sup>

Indeed, the twisted economic outcome of oil dependence plays right into the hands of bad government and creates a massive imbalance of power. The economics of oil can fundamentally alter the political nature and purpose of the economy. The rents caused by oil are easy for states and elites to appropriate. Foreign oil companies can literally buy influence, and domestic elites can even buy the state. In cases less severe, but no less indicative, politicians may stay “clean” from oil money, but nonetheless appropriate it for their own political ends by monopolizing oil and thus power, a charge often raised against Venezuela’s Hugo Chavez and Russia’s Vladimir Putin.<sup>33</sup>

### *Oil and the political environment*

As mentioned previously, leaders accustomed to oil wealth have no need for taxation. Thus, they have no need for the population, or their property, political, or civil rights. Spending on public welfare is reduced from a matter of necessity based on accountability to an act designed to demobilize opposition. In case after case, from Saudi Arabia to Venezuela it seems to work.

Many oil dependent states manifest similar political qualities. There is a noticeable lack of accountability, which results from and gives rise to massive corruption with political leaders staying in power for decades or becoming presidents for life. Kickbacks, bribery, and patronage are rampant. Weak institutions and poor governance are the result. Wealth is distributed quickly and unevenly among elites leaving the poor to naturally question their status. Such inequalities, exposed and exacerbated by oil wealth, coupled with an unequal distribution of power and a detached, disinterested government create an explosive expectation-gap among the population. Visible in illiteracy rates, education and health standards, such inequalities become the fuel for insurrections, uprisings, and civil wars. In response to such forces

as well as to simply secure their own positions, oil dependent governments and the elites which run them place an inordinate amount of resources in military and security spending. In the process, democracy is the first casualty. Well-to-do nations may be able to sustain democracies, but well-to-do nations that lack one, are not likely to get one.

According to Ross, the oil-impedes-democracy argument is “both valid and statistically robust” and tends to be stronger the poorer a country is, even when exports are small.<sup>34</sup> A quick observation substantiates his thesis. Equatorial Guinea, brought to western televisions through a failed coup attempt organized by Margaret Thatcher’s son Mark, found oil in the early 1990s. While the vast majority of the population lives in abject poverty, the president, his family, and his close friends bask in wealth. There are neither political debates nor daily newspapers.<sup>35</sup> The country ranks seventh from last on Transparency International’s Corruption Perceptions Index (TICPI).<sup>36</sup> In Kazakhstan, a third of the population lives under \$1 a day, while its autocratic president is the richest man in the country.<sup>37</sup> In Angola, where 90% of government revenues come from oil and two thirds of the population have no access to clean water, a recent IMF audit revealed that \$4.2 billion in oil revenues went missing between 1996 and 2001. When asked, the Angolan government allegedly replied that it was an accounting error; it had simply lost the receipts.<sup>38</sup> Angola and Kazakhstan rank 151 and 107 respectively on the TICPI.<sup>39</sup> In fact, most oil-dependent countries rank near the bottom in the World Bank’s Voice and Accountability Index.<sup>40</sup>

Governments that lack accountability are breeding grounds for corruption and foster a nasty cycle of weakened institutions, patronage and poor governance, which in turn fosters even more corruption. Once unleashed, these forces are difficult if not impossible to rein in. Corrupt governments tend to have extensive staying power. Zaire’s President Mobuto Sese Seko stayed in power for 32 years, from 1965 to 1997. The Aliyev family of Azerbaijan turned the former Soviet republic into a hereditary autocracy. In Saudi Arabia, some 10,000 royal family members receive monthly stipends of between \$800 and \$270,000.<sup>41</sup> According to Ross, patronage programs have become one of the primary tools that corrupt government use to minimize popular dissent.<sup>42</sup>

No matter how successful such governments have been in reducing demands for

reform, however, in many cases the heightened expectations of the population cannot be overcome. In oil-dependent states (as opposed to non-oil-dependents), nutrition is often low, child mortality high, life expectancy is lower, literacy rate increases slower, and lower school-enrolment rates are the norm.<sup>43</sup>

In contrast to these facts, however, stands the spirit of the poor who hope that oil will bring jobs, schools, food, healthcare, and housing. Unfortunately in Chad, no such dreams have come true. Mbangtoloum Ngaramdǎ, a Chadian farmer from the village of Kayrati told National Geographic recently, “They said the majority of us would get rich, but we have just got poorer. Nothing good has come from the oil.”<sup>44</sup> Mbangtoloum will be lucky if he survives another harvest; life expectancy in Chad is 48, AIDS and Malaria are sweeping the country; another prize of its newfound oil wealth.

This incongruence of development is so spectacular in some countries it is no wonder that they have had, continue to have, or will fall victim to conflict.

These conditions, from the money, corruption and weak institutions to the extreme poverty and rampant inequality, lead rulers already detached from accountability to their citizens to invest in the one area that will best perpetuate their own power, namely security. In Iran, the Shah used oil to finance a brutal security service; his theological successors replaced it with one of their own. Iraq, under Saddam Hussein spent a fortune of his country’s oil wealth to build a repressive regime dedicated to holding on to power, as occurred in Nigeria, Angola and more recently in Venezuela. Since coming to power, Venezuelan president Hugo Chavez has “systematically removed all checks and balances central to democracy – concentrating power in his own hands” according to the Economist.<sup>45</sup> He has undermined property rights, placed curbs on private business, and instead of diversifying his country with its vast oil wealth, he has instead focused on promoting his “Bolivarian revolution,” centered on state control of oil resources. Making matters worse, the Chavez government is increasingly militarizing public administration and decision-making, ordering new laws restricting press freedom by prohibiting “disrespect for government authorities.”<sup>46</sup>

Chavez is not alone in his ways. Both Christian Aid and Karl point to tendencies among oil-dependent states to spend a considerably higher share of GDP, between two and ten times, on military and police than non-oil states and have armies

consisting on average of 2.6% of the population as opposed to 1% in non-oil dependent countries.<sup>47</sup> It is, therefore, no surprise that oil-dependent countries tend to be more militaristic, have stronger security forces and find themselves engaged in more conflicts than states not in possession of such resource wealth; and it is also not uncommon to find oil-rich states engaged in “enclave wars” over oil, at home or along their borders.<sup>48</sup>

Whether the goal is keep the public demobilized, secure its oil assets, settle disputes over them, or to preserve the self-interest and power of a country’s elites, oil-dependent countries tend to be highly militarized, and those militaries tend to be among the most robust institutions found in the country. Oil wealth has been used by Sudan, Algeria, Nigeria, Yemen, and Indonesia in Aceh to prolong conflicts.<sup>49</sup> In fact, when oil wealth is concentrated in secessionist areas, the likelihood for a prolonged and bloody war skyrockets. Oxford’s Paul Collier suggests that the phenomenon of oil-fueled wars is particularly acute in Africa, where he says there is a 25% chance for such conflicts in oil-dependent states as opposed to 1% in those lacking oil.<sup>50</sup>

Looking at the numbers surrounding oil, the poor performance oil-dependent states demonstrate in accountability, transparency, corruption, diversification, fiscal practices, militarization, authoritarianism, poverty, and inequality, one can only conclude that oil is indeed more often than not a curse.

### *Are oil dependent states truly doomed?*

The numbers don’t tell the whole story. There are examples of countries that broke the oil curse and others that avoided it altogether. The latter group consists predominantly of states that were already democracies long before oil came along. These states had years, even centuries to develop robust institutions to protect against corruption, patronage, and self-aggrandizing fiscal imprudence. Among them are the United States, United Kingdom, Norway, and Canada. Another group, however, has successfully moved from oil cursed to oil blessed. These include Indonesia, Mexico and to a great extent the small emirate of Dubai. Dubai’s economy has tripled over the last ten years. Since the mid-1990s, it has been using its oil receipts to build world-class holdings, including funds and companies currently worth over \$15 billion.<sup>51</sup> The country is growing at 16% per year and oil, once its primary source of income, is now

around 6% of its GDP. Its successes are not limited to economics either. Dubai is the only Arab emirate to have a woman serving as its Minister of Economy.<sup>52</sup> What is the key to Dubai's success? In a word, diversification. Unlike so many other oil-dependent states, Dubai diversified its economy and spread its wealth, through the process, to more of its citizens. As a result, democracy is seeping in; transparency is on the rise, ranking not far behind Japan and Spain and ahead of Italy, Hungary, and South Korea according to Transparency International.<sup>53</sup>

Dubai has company too. According to the Economist, "Mexico has successfully diversified its economy in recent years reducing oil exports as a share of GDP to under 10%."<sup>54</sup> Indonesia had diversified its economy before the first oil crisis of 1973 and successfully increased its manufacturing base between 1970 and 1999 from 1.2% to 54% of GDP reducing its oil share of exports by 30% over the same period, now at under one third.<sup>55</sup> This is directly opposed to Algeria, which has seen its manufacturing base drop from 6.7% to 2.8% over the same period and Venezuela, of which oil constituted 80% of its exports in 1999.<sup>56</sup> Three decades ago, Indonesia and Nigeria had comparable per capita incomes, both economies primarily based on oil. Today, Indonesia's is four times that of Nigeria's.<sup>57</sup> That is the power of diversification.

### *Beyond diversification*

Dubai, Mexico and Indonesia along with their fully developed counterparts to the North offer optimism to the curability of the oil curse. Unfortunately, the oil curse is not solely a domestic matter. For a country to diversify it requires a domestic decision, but involves cooperation abroad. The influence wielded by large multinational oil corporations like Shell and BP, industrialized consumers like the United States and rising stars like China can and do play a determining role in the domestic development of an oil dependent economy.

The United States, as the world's largest consumer, has spent a great deal of its own resources over the last decades, literally in blood and money, to keep oil flowing smoothly to itself and its allies. In the process, it has funded authoritarian governments with aid and weapons to militarize and perpetuate their smooth rule, in what one author called a "see no evil position."<sup>58</sup> Despite obvious inequalities, the U.S. is currently

investing heavily in African oil. China too, in its own pursuits for energy has acquired oil assets in Asia, Africa, the Middle East, and Latin America. Its stake in Sudan is significant and when the issue of Darfur recently came before the U.N. Security Council, China threatened a veto, forcing the watering-down of the resolution.<sup>59</sup> The same forces are at play in Iran. Add to these national interests, those of the international finance community, which sees investments in extractive industries as one of their most lucrative portfolios, and you have an international community that promotes the retched curse of oil.<sup>60</sup>

Current efforts to promote greater transparency and anti-corruption initiatives like the Publish What You Pay movement and the voluntary Extractive Industries Transparency Initiative (EITI) have yet to make any significant dent in oil-related corruption. Other programs that establish rainy-day funds are in existence in a number of places, from Norway to Chad to Venezuela and Iran. However, all of them have been raided at one time or another by their respective governments for purposes other than rainy-day needs. According to Birdsall, Venezuela has changed the rules on how to spend its oil fund money six times in the last few years. Oil funds are supposed to take revenues from a depleting source and save it for future generations. Unfortunately, such a large amount of saved cash seems too enticing for countries to resist.

That leaves dividends. Alaska regularly pays out shares of interest earned on its oil to its residents, in what can only be called an oil dividend. Such a solution for the oil curse seems attractive. In a poor country, it could allow for a healthy transfer of wealth from rich to poor, without shaking up the national political environment too rapidly. Distributing wealth in this manner, say in the form of a few thousand dollars per year, would foster small business and consumption. It would help create a tax base and could serve to raise many countries out of the throws of desperate poverty. Alas, in most poor countries, citizens lack bank accounts, making such distribution impossible, or yet another source for corruption. Institutions are needed. Unfortunately, such institutions can only be created by those elites who caused the problem in the first place.

Sadly, despite all the good ideas, those in power in oil dependent countries have no incentive to forfeit any of the wealth or authority they possess. In fact, they tend to stay in power for decades, and with each passing year, corruption, and patronage increase adding to the cycle of dependence. Strangely, some may see the staying power

of elites in these countries as a blessing, if one can call it that; as long as they remain, there is stability, a matter considered of great importance to the world's oil consumers.

Nevertheless, sometime in a not too distant future, oil will disappear. When it does, stability will end. Those countries that have diversified will move forward. Those that do not, however, will collapse economically and politically.

Meanwhile, the oil curse remains just that, a curse.

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