

Institutions, Capital Flight and the Resource Curse

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The resource curse

- Wave 1: Case studies, Gelb (1988)

The resource curse

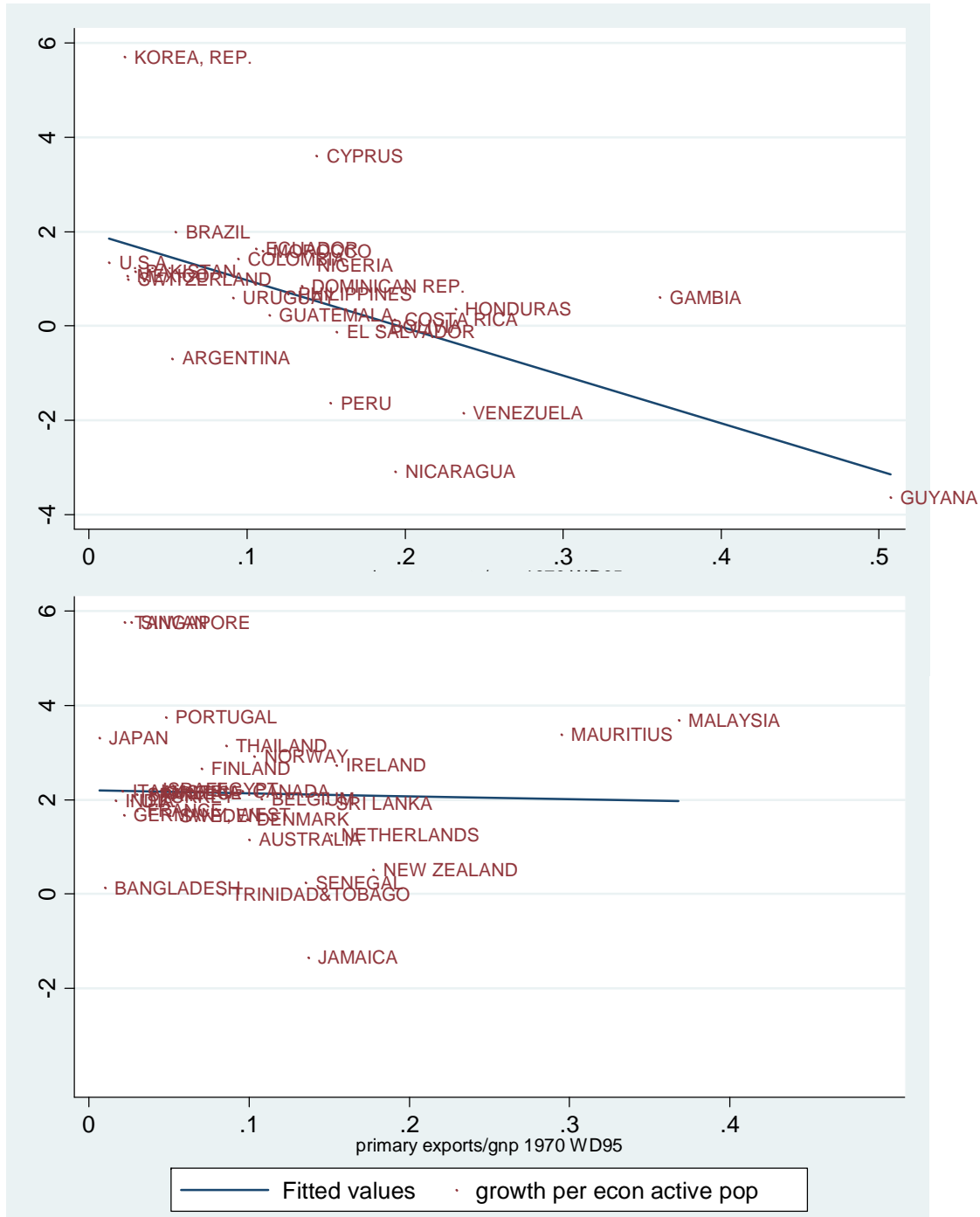
- Wave 1: Case studies, Gelb (1988)
- Wave 2: What is the average effect of resource abundance?

The resource curse

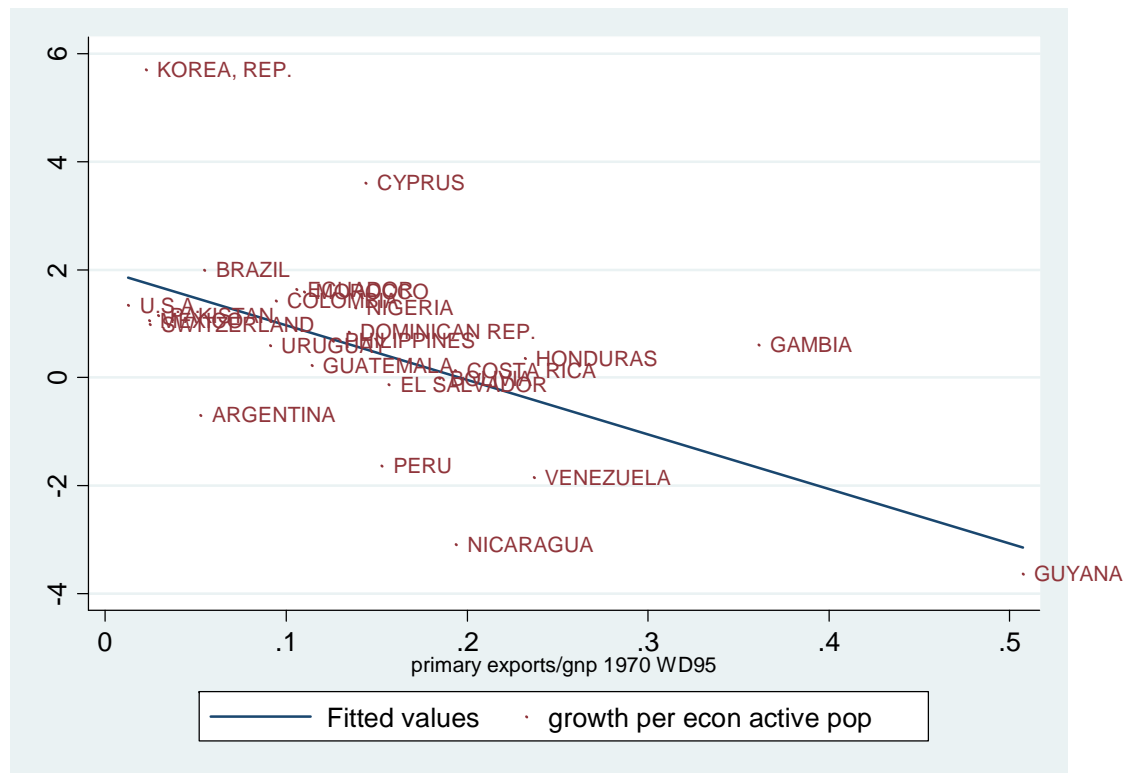
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- Wave 3: What explains the huge variation between resource abundant countries?

The resource curse

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- Wave 4: ?



Democratic countries with presidentialism



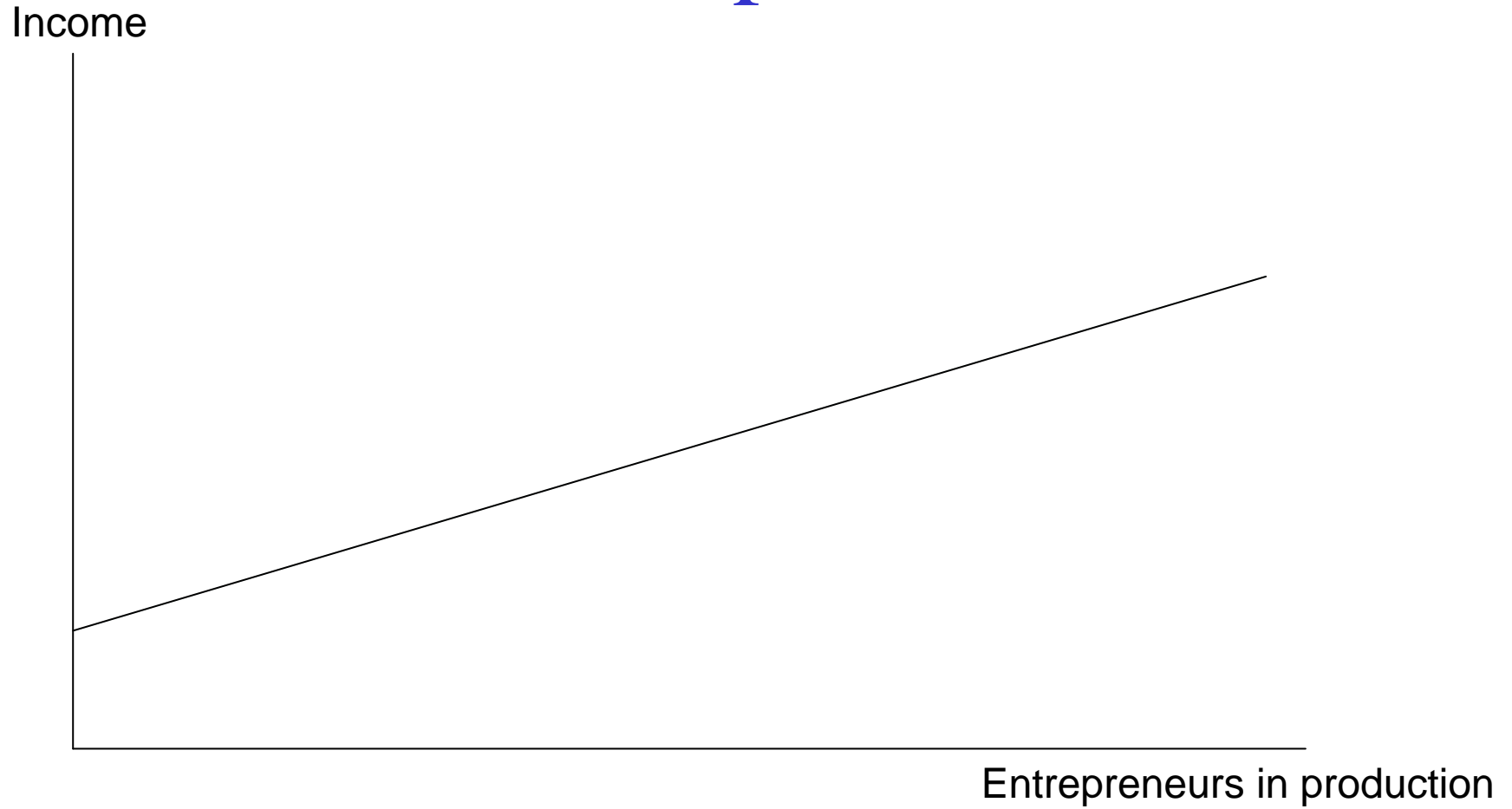
Institutional quality

- Resources have the opposite growth effect in countries with strong and weak institutions
- In the countries with top 20% institutional quality we do not have a resource curse

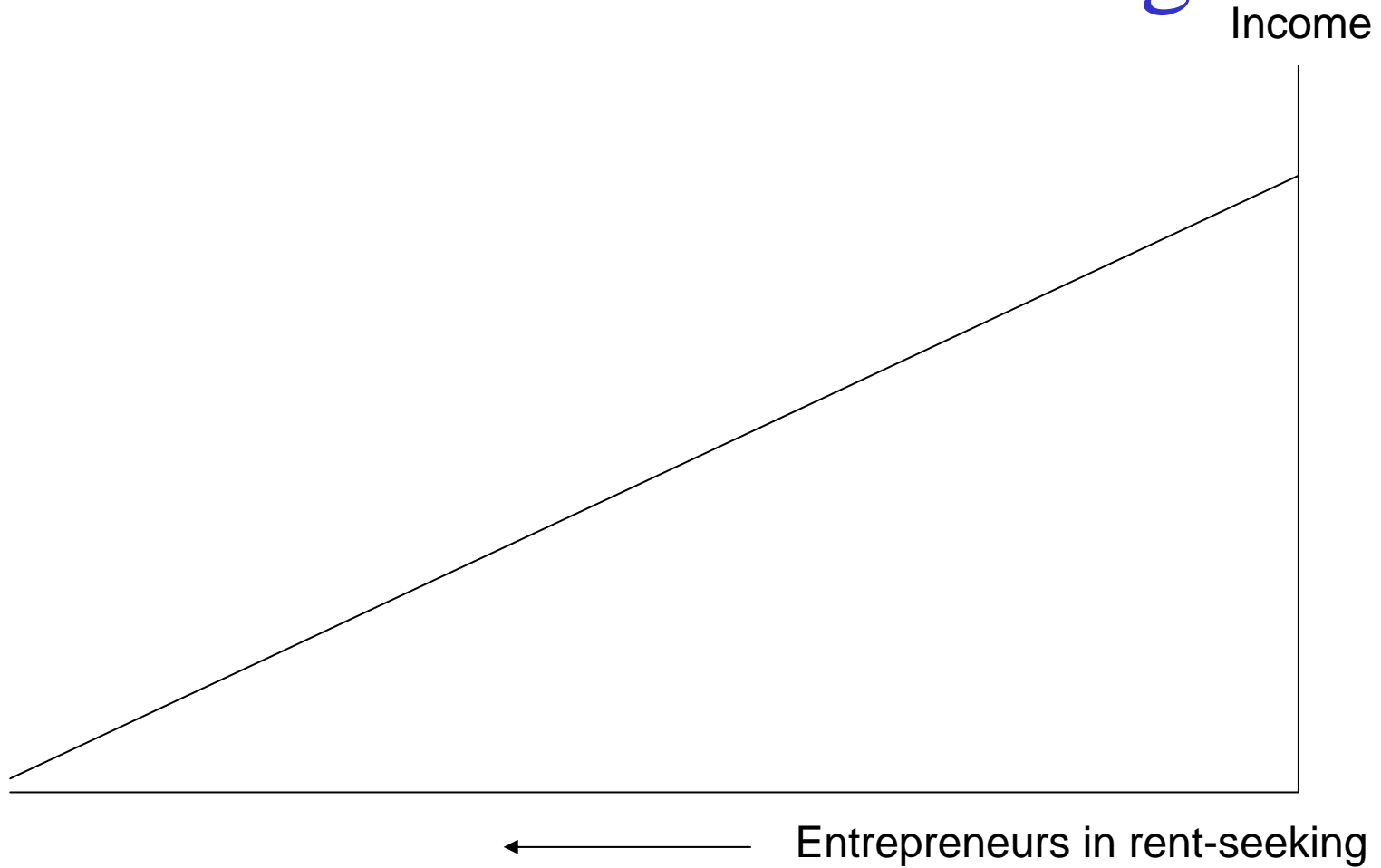
The resource curse – Wave 4

- (i) New development of theory
- (ii) Institutions in *other* countries – capital flight – tax havens
- (iii) Endogenous institutions
- (iv) Institutional design – petroleum funds
- (v) Normative analysis of the resource curse

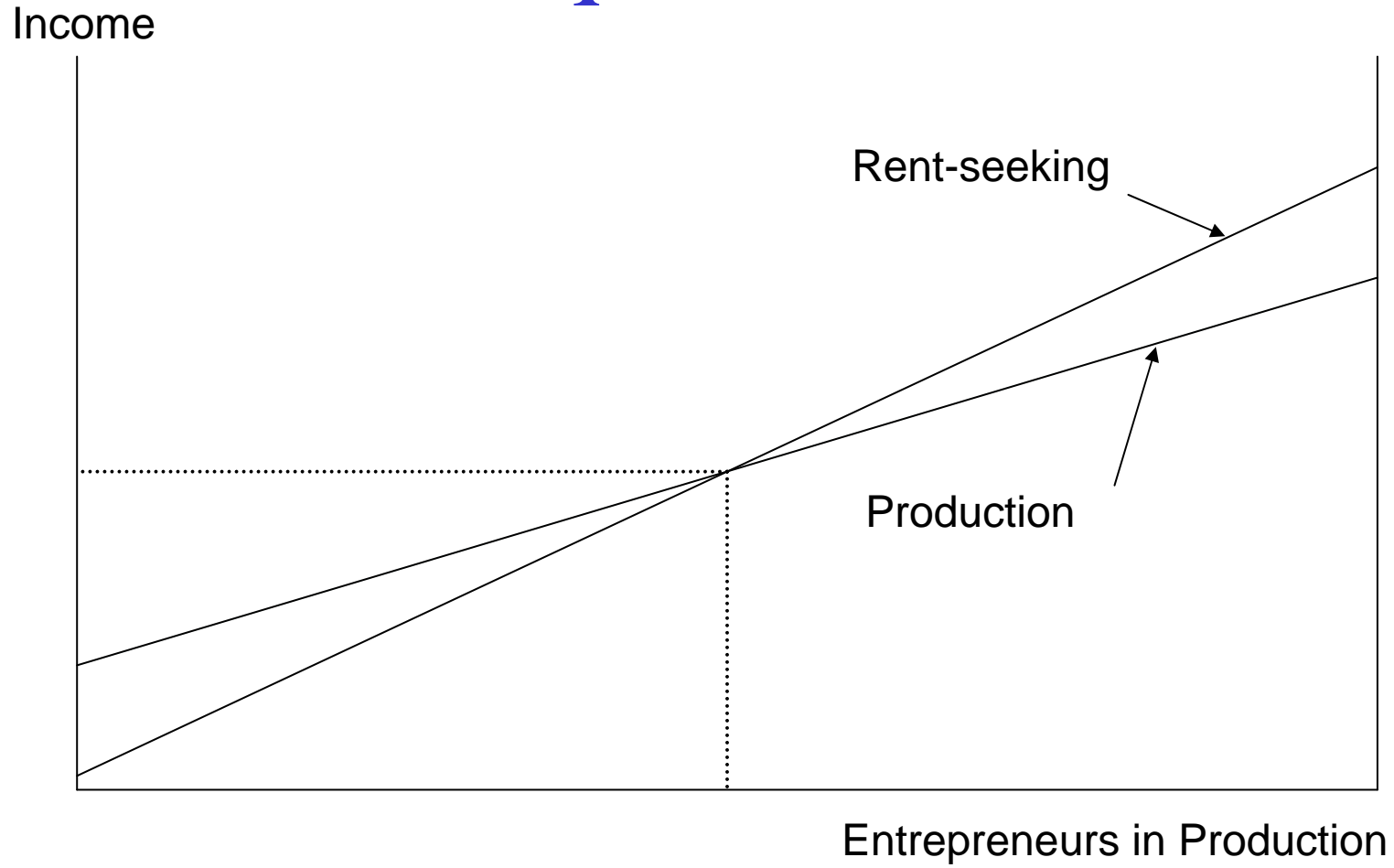
Income and production



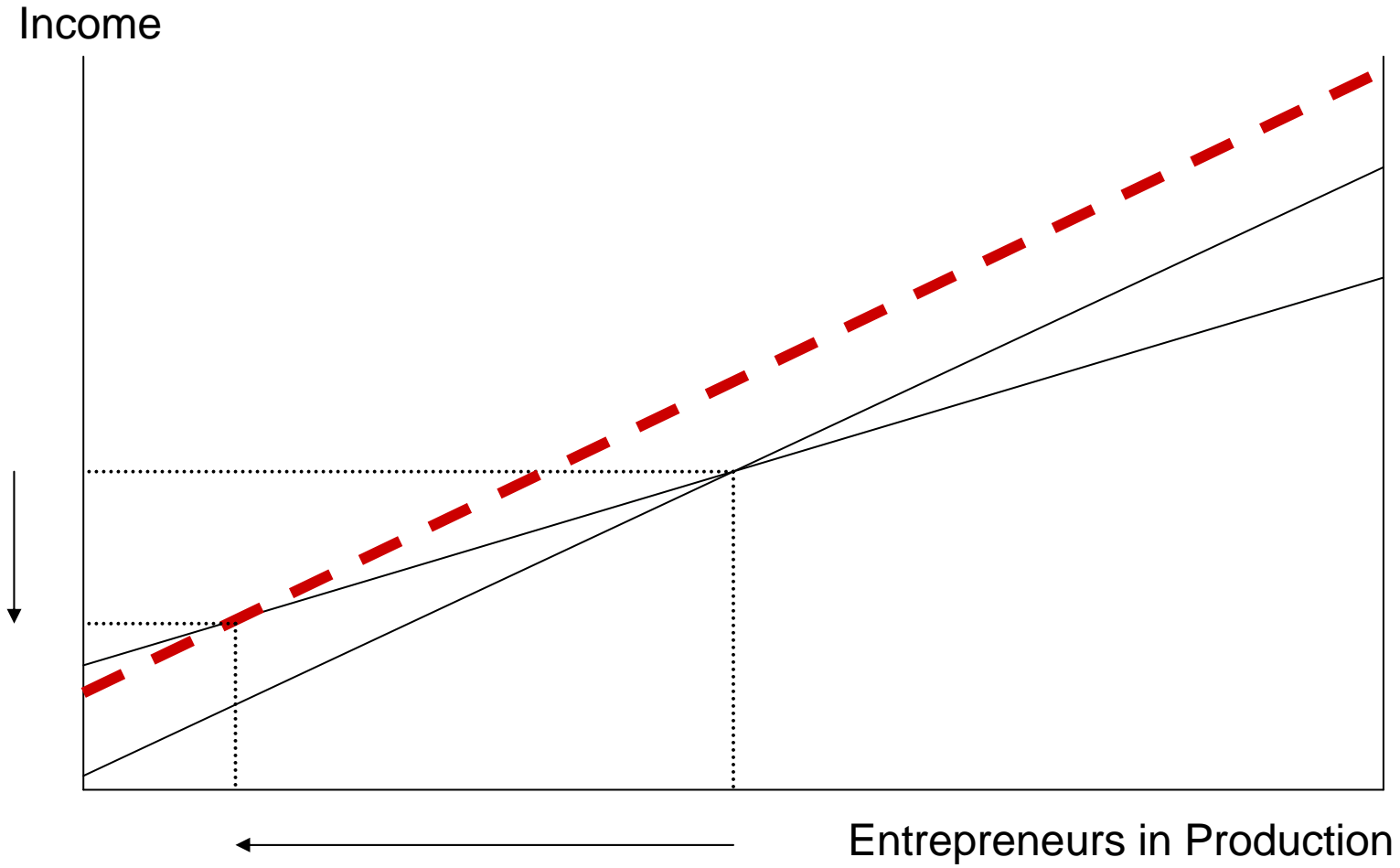
Income and rent-seeking



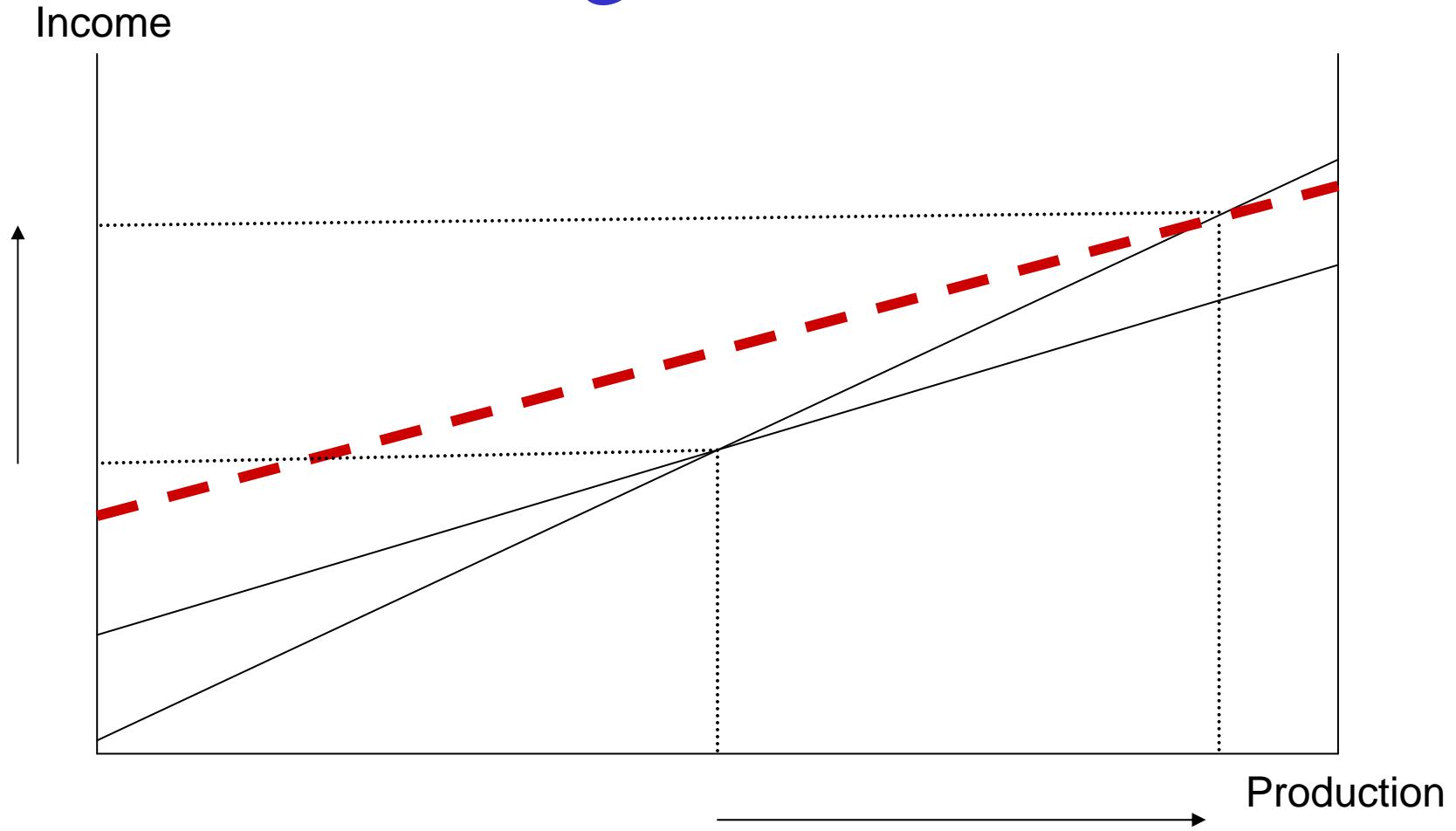
Equilibrium



The bad news



The goods news



What does this tell us?

- The variation in outcome is extreme
- Income may be reduced despite of oil
- Income may increase by more than the oil income
- Both of these conclusions differ from what standard economic theory predicts

Capital flight - Tax havens

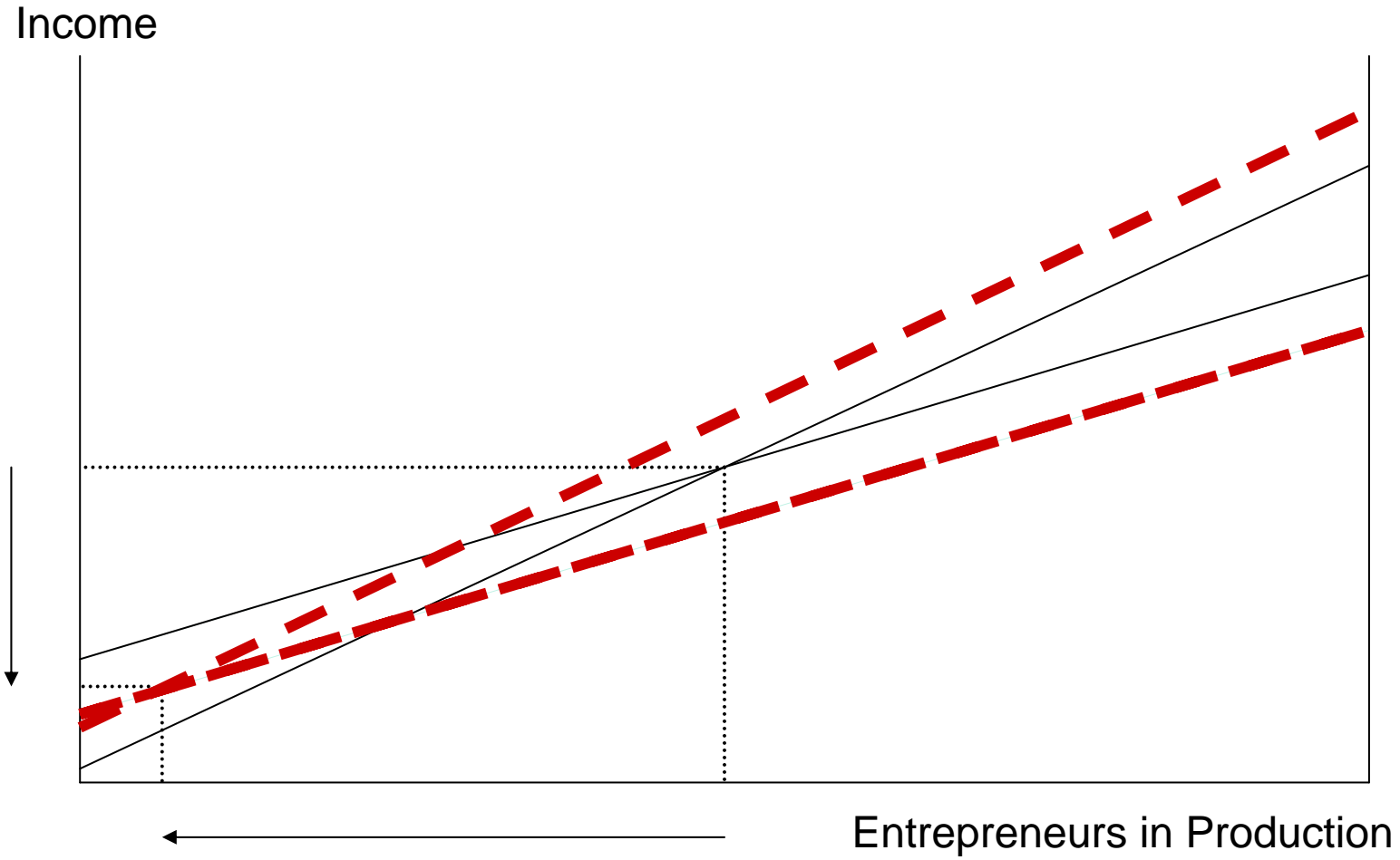
- It takes two to tango
- It is not only domestic institutions that matter
- What are the effects of foreign institutions?

Capital flight - Tax havens

- A dangerous mix:
 - Weak domestic institutions
 - Bad foreign institutions
 - Resource abundance
- In turn: What are the incentives to change domestic institutions?

Country	Independence	Constitution	Constitution today
Botswana	1966	Parliamentary	Parliamentary
Burkina Faso	1960	Presidential	Presidential
Burundi	1962	Parliamentary	Presidential
Cameroon	1960	Parliamentary	Presidential
Central African Republic	1960	Presidential	Presidential
Chad	1960	Parliamentary	Presidential
Cote d'Ivoire	1960	Presidential	Presidential
Gabon	1960	Parliamentary	Presidential
Gambia	1965	Parliamentary	Presidential
Ghana	1957	Parliamentary	Presidential
Guinea	1958	Presidential	Presidential
Guinea-Bissau	1973	Parliamentary	Presidential
Kenya	1963	Parliamentary	Presidential
Malawi	1964	Parliamentary	Presidential
Mali	1960	Parliamentary	Presidential
Mauritius	1968	Parliamentary	Parliamentary
Niger	1960	Presidential	Presidential
Nigeria	1960	Parliamentary	Presidential
Rwanda	1962	Presidential	Presidential
Senegal	1960	Parliamentary	Presidential
Sierra Leone	1961	Parliamentary	Presidential
South Africa	1910	Parliamentary	Parliamentary
Sudan	1956	Parliamentary	Presidential
Tanzania	1964	Parliamentary	Presidential
Zaire	1960	Parliamentary	Presidential
Zambia	1964	Parliamentary	Presidential
Zimbabwe	1980	Parliamentary	Presidential

The terrible news



The wonderful news

- We know much more about how to design institutions so as to prevent the resource curse
- Politicians are starting to see and take action against harmful tax havens
- Democratization in developing countries