



**20<sup>TH</sup> ANNUAL RESEARCH WORKSHOP**

# **Natural Resources and Institutions**

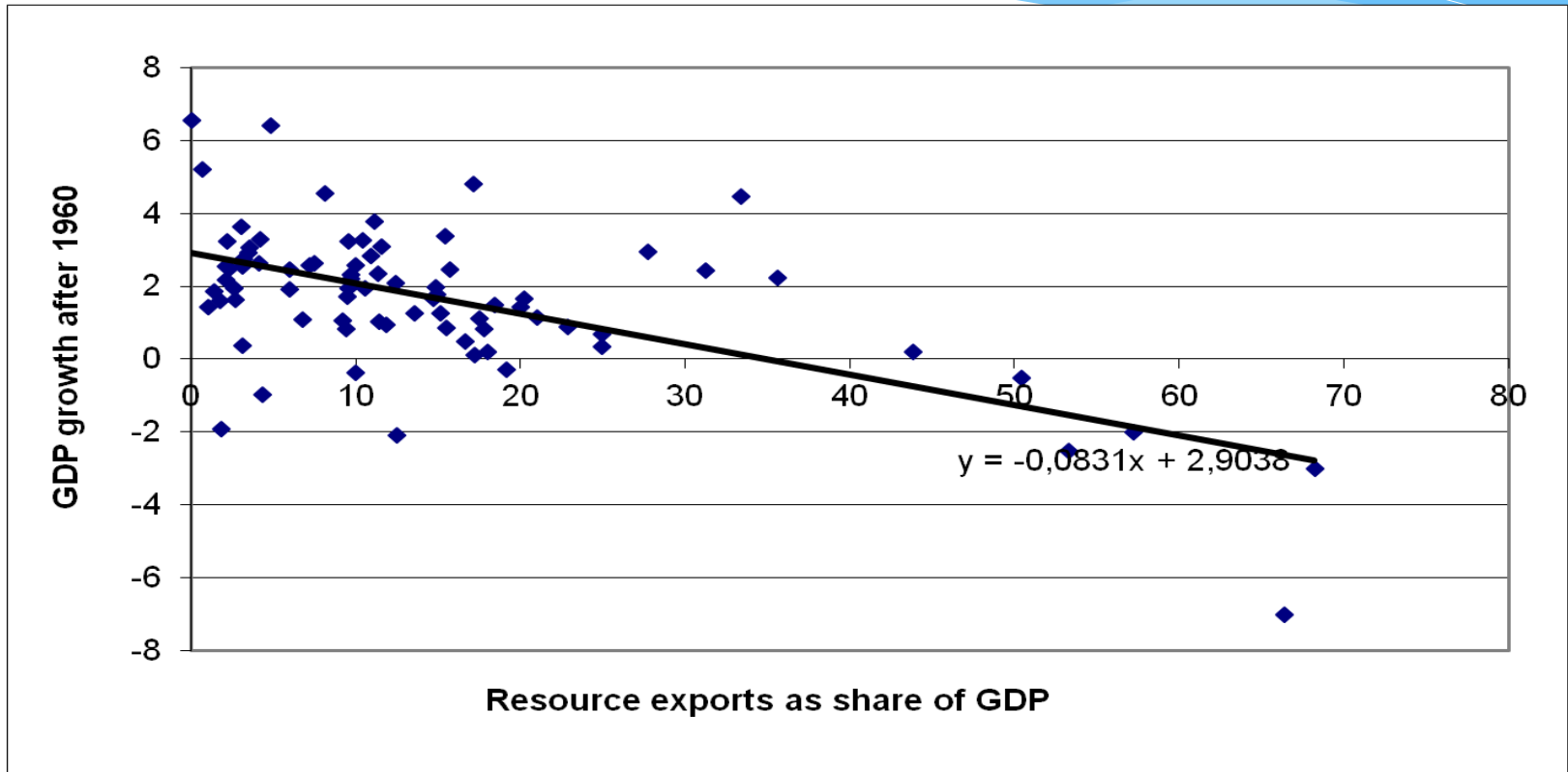
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# The Resource Curse



# Institutions

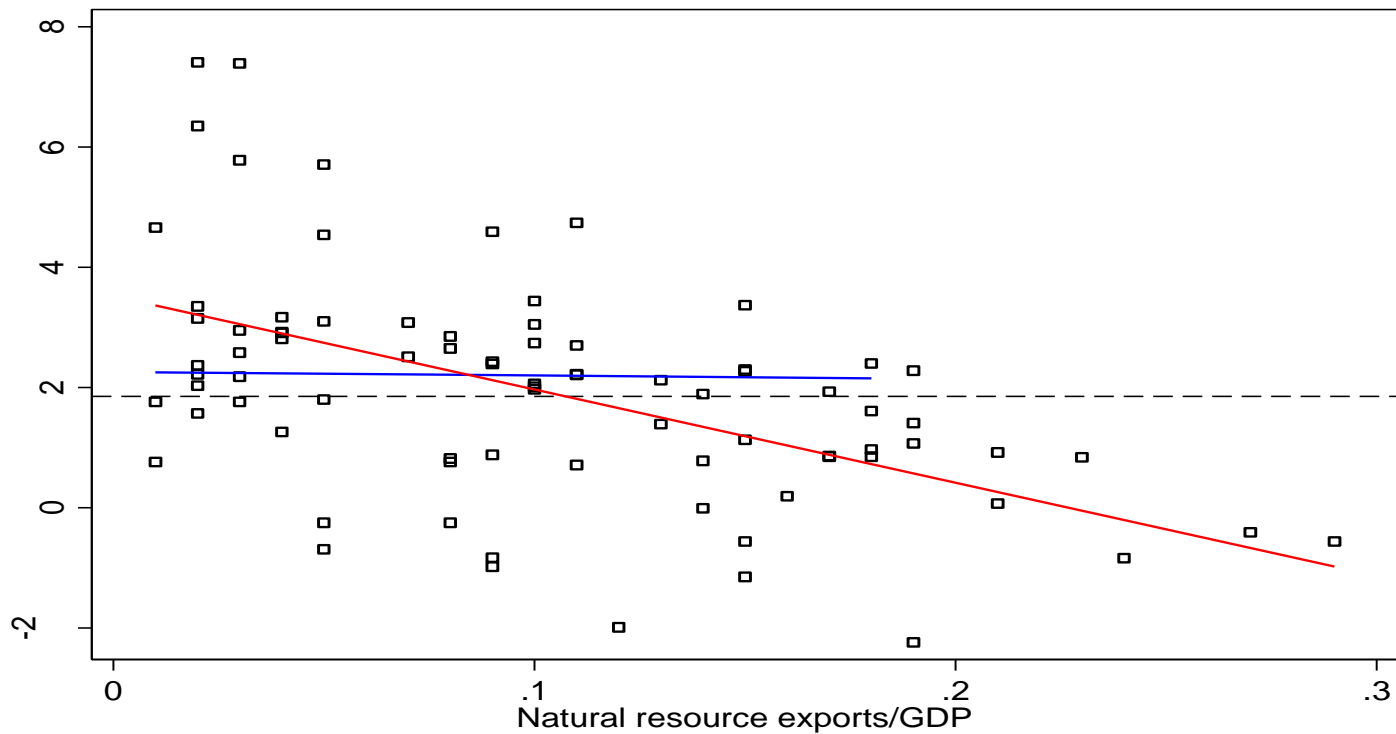
- \* Sachs and Warner (1995): The negative effect of resource abundance on growth does not appear to work through institutions.
- \* We need to separate two mechanisms:
  - ✓ institutions are shaped by natural resource abundance (Endogenous institutions)
  - ✓ institutions shape the way natural resource abundance works (Exogenous institutions)

# Definition

\* Douglass C. North:

Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws, property rights)

# Institutions and the Resource Curse





# Quiz #1

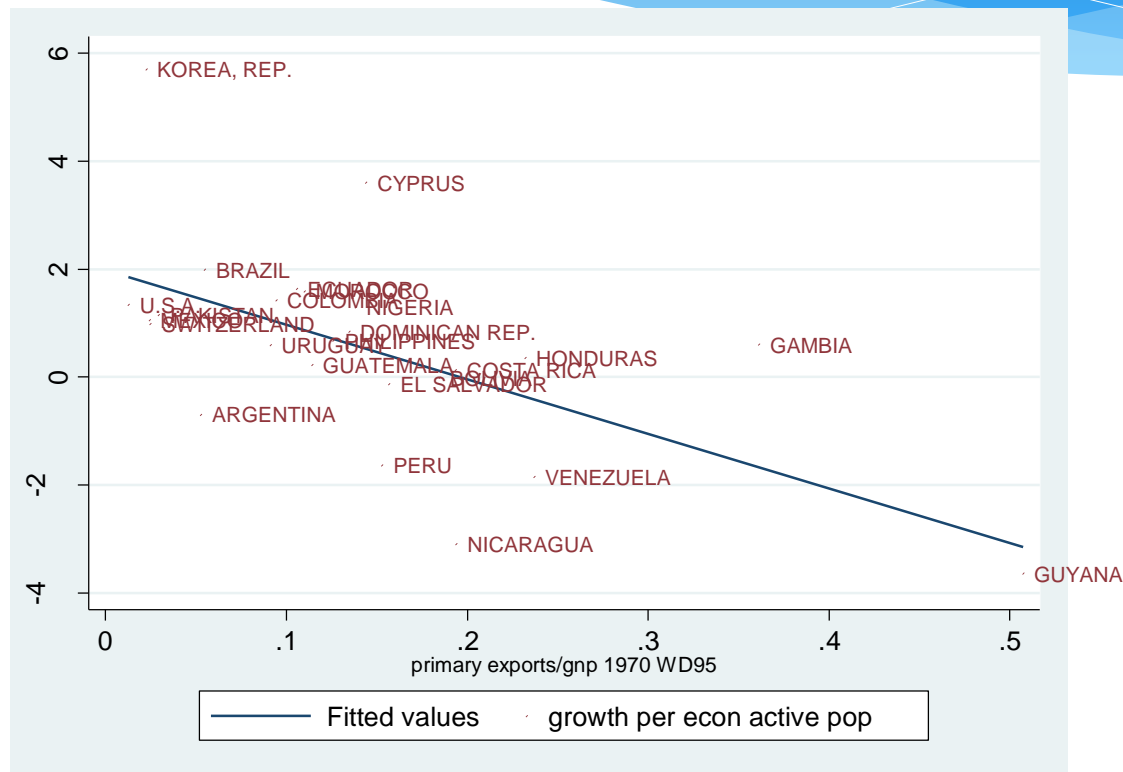
\* What separates countries such as

South Korea, Brazil, Gambia, Phillipines and US

from countries such as

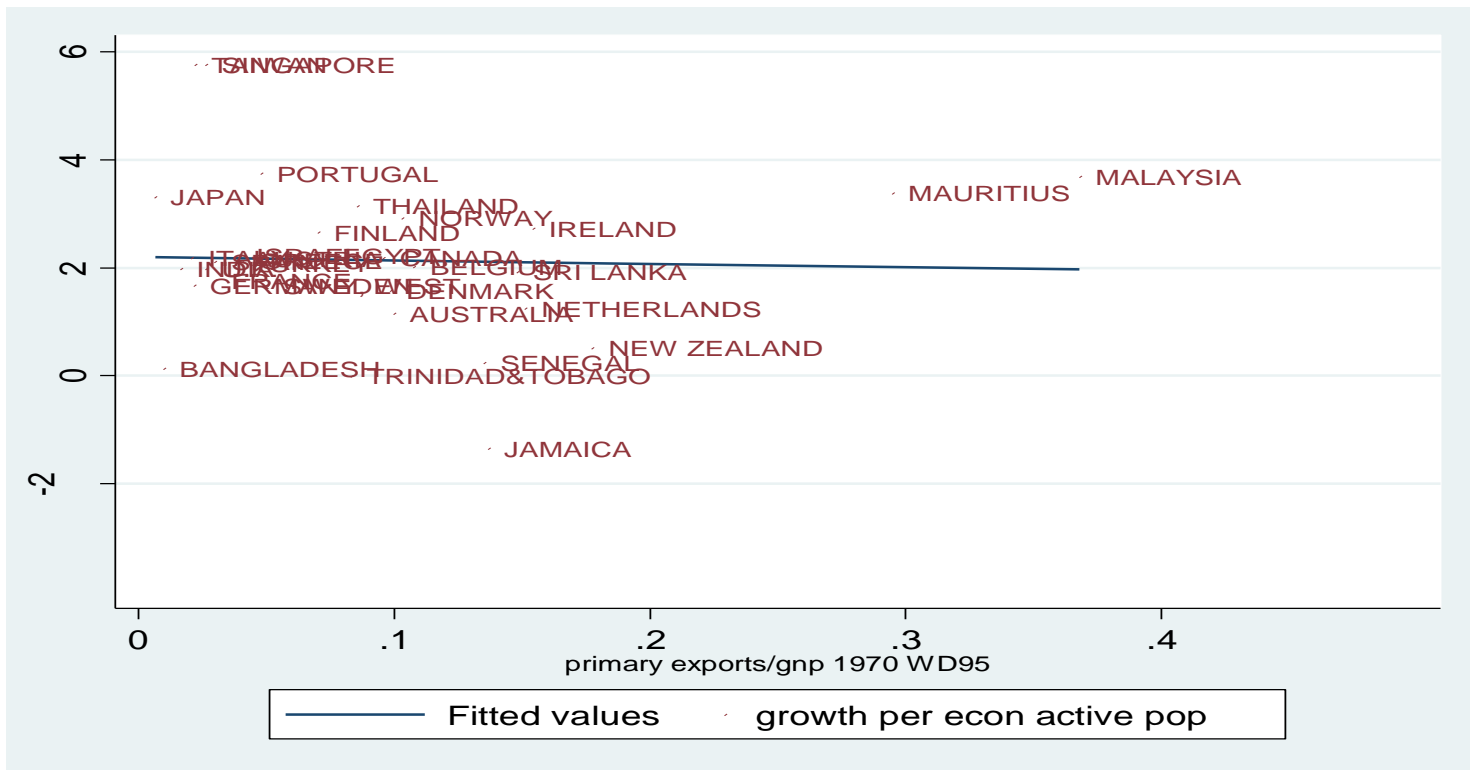
Bangladesh, Mauritius, Norway, Sri Lanka and Canada?

# Democratic countries with presidentialism





# Democratic Countries with Parliamentarism



# Exogenous Institutions

- \* So even if institutions are exogenous the resource curse works through institutions
- \* But are institutions exogenous to resource abundance?
- \* No

# Quiz #2

- \* What was the country with the highest per capita income in the world in 1790?

# Quiz #3

- \* What is the country with the lowest per capita income in the western hemisphere today?

# Quiz #3

- \* What is the country with the lowest per capita income in the western hemisphere today?
- \* Answer to **Quiz#2** and **Quiz#3**: Haiti

# The Americas

- \* Why did the poor North do so well, while the rich South did so bad?
- \* One answer: Institutional development (Engermann and Sokoloff, and Acemoglu, Johnson and Robinson)
- \* So resources affected those who were colonized
- \* What about those who colonized?

# Europe

- \* Why did the England and Netherlands do so well, while Spain and Portugal did so bad?
- \* One answer: Institutional development  
(Acemoglu, Johnson and Robinson AER 205)
- \* So historically resource abundance shaped institutions
- \* Are institutions slow to change? Yes and no

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

Kilde: Robinson and Torvik (2008)



# Political System

- \* Why did Mobutu want to change from being prime minister to president in Zaire in 1967?
- \* And what about Mugabe in Zimbabwe in 1987, Stevens in Sierra Leone in 1978, Banda in Malawi in 1966 and Nkrumah in Ghana in 1960?
- \* Increased checks and balances?.....

# Natural Resources Shape Institutions – Not Only of Historically Interest

- \* Timber booms and institutional breakdown in South-East Asia
- \* So politicians may have incentives to weaken institutions
- \* More valuable natural resources makes it more tempting for politicians to dismantle checks and balances
- \* But what about voters?

# Checks and Balances

- \* James Madison (Federalist #51)

"In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is, no doubt, the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions."

- \* Voters in a democracy ought to be very much in favor of checks and balances – so then:

# Checks and Balances

- \* “Why Do Voters Dismantle Checks and Balances?”  
(Acemoglu, Robinson and Torvik, RES 2013)
- \* Three recent examples:
  - President Hugo Chávez in Venezuela from 1998
  - President Correa in Ecuador 2006
  - President Morales in Bolivia 2008
- \* Two implications
  - Checks and balances is as an equilibrium outcome
  - We need to understand when voters dismantle them

# Dismantling Checks and Balances - Intuition

- \* Checks and Balances makes the President weaker
- \* But who does it make stronger?
- \* President Correa 2006:  
“Let's not be naive ... We won the elections,  
but not power”
- \* Democracy is captured by the rich elite.

## *Dismantling Checks and Balances – Intuition-2*

- \* A weak president makes it more likely that he is captured by the rich
- \* This, in turn, pushes policy away from the interest of the poor
- \* A strong president implies that the rich elite have little to offer him
- \* But a strong president may misuse his power.
- \* So for poor voters: tradeoff

## *Dismantling Checks and Balances – Intuition-3*

- \* Poor voters tradeoff:  
Dismantling checks and balances is more likely when
  - 1) The rich elite is better organized
  - 2) Income inequality is higher
  - 3) There is much income from natural resources
- \* Weak institutions crowd in weak institutions
- \* What about a perfect democracy – is that a sufficient institution for the management of resource extraction and use?
- \* A strong president implies that the rich elite have little to offer him
- \* But a strong president may misuse his power.
- \* So for poor voters: tradeoff

# Democracy and Short-sightedness ?

- \* Consider the following example:
  - ✓ reelection probability  $< 1$
  - ✓ political disagreement
- \* What happens?
- \* Normative approaches



# Normative Theory

- \* How does the design of institutions to manage natural resources depend on institutions?