Mineral booms: Blessing or curse?

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A growing number of developing countries - including Ghana, Tanzania and PNG - are looking forward to sizeable revenues from their non-renewable resource sectors. Will this be a blessing or a curse? What can policy-makers do?

Economists have long debated this issue. Alan Gelb's book - Oil Windfalls: Blessing or Curse? - reviewed six countries that experienced oil windfalls during the 1970s and found that many of the potential benefits were dissipated and some countries actually ended up worse off. Key drivers were a loss of competitiveness of exports, a rise in corruption and stagnating non-oil growth.

Alan Gelb went on to suggest that:

> Natural resources alone will do little to promote economic development. Countries need sound economic management, and they need to address the political factors that conflict with wise policy choices.

Alan Gelb's more recent paper - 'How should oil exporters spend their rents?' - builds on this analysis.

> Drawing on the experience of a few successful countries, it points to a number of common factors that seem to be important in enabling countries to obtain a positive payoff from resource wealth. These include a strong concern for social stability and growth, a capable and engaged technocracy, and interests in the non-oil sectors able to act as agents of restraint.

Another paper from CGD - on the 'Case for direct cash distribution' - explores an approach for developing 'agents of restraint.'

Todd Moss and Lauren Young's solution is to create a constituency through direct cash distribution; making each citizen a direct shareholder in mineral revenues. The approach would also boost consumption among the poorest and provide a broad tax base with which to fund basic services and infrastructure.

This isn't a new concept - for example it is used in Alaska - but it is new for developing countries. Would it work?

There are at least four challenges that such a scheme would need to address:

- **A political challenge:** In order to be implemented, the scheme would first need to be approved by government. And it is not clear from the CGD paper how the scheme would get over the initial hurdle of convincing politicians to cede control of mineral revenues.

- **A logistical challenge:** Poor countries lack some of the necessary institutional foundations - an accurate and reliable register of citizens or access to banks - to distribute cash to the population. For example, a scheme to distribute shares in state owned enterprises to each adult in PNG was shelved for these reasons. However, new technologies means that these challenge may be solvable - India is introducing a unique ID cards for 600m people and rise of mobile phones offer another channel for payments to the unbanked.
- **A macroeconomic challenge:** Mineral revenues are notoriously volatile. Economists have long debated the implications for absorptive capacity and Dutch Disease and subsequent impact on growth. While my own view is that such arguments are often overstated, it is clear that volatile revenue flows do create difficulties for fiscal management and simply passing on revenues to citizens isn't itself an adequate solution.
- **A development effectiveness challenge:** It is not entirely clear whether distribution of cash would 'strengthen the social contract' or instead become a source of social conflict between competing groups, or even a source of political patronage itself. Adequate evidence to persuade skeptics is needed and this will probably need to be highly contextual.

Notwithstanding this, the proposal for direct distribution of cash is a welcome contribution to the debate and deserves serious consideration.

A competition of ideas is always a good idea - especially when it's on an issue as critical as managing mineral booms.

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