



How the “Resource Curse” Affects Stability in Africa: Part I

Marcus Noland, citing the recent election in Ghana, explains how the discovery of oil can distort and destabilize politics in the developing world.

Transcript of interview recorded December 11, 2012. © Peterson Institute for International Economics.

Steve Weisman: A presidential election in Ghana in early December did not capture many headlines in the United States, but Marcus Noland, deputy director of the Peterson Institute for International Economics, is here with me, Steve Weisman, to explain why this election is a case study with huge implications for the developing world and countries with resources, especially oil.

Thanks for joining me Marc. Tell me first what happened in the election?

Marcus Noland: Ghana held an election this past weekend [Dec. 7-8] and it appears that the ruling party candidate has been reelected with just over 50 percent of the vote. There is some dispute about fraud and irregularities and there probably was some fraud and irregularity. But the margin of victory appears to be large enough that even if the losing party makes a legal challenge, I don't think it will be sustained.

Steve Weisman: The election was striking to you —and you are writing a book about Ghana -- because of the amount of money spent.

Marcus Noland: Actually, I'm writing a book with Cullen Hendrix [visiting fellow at PIIE]. It's on the issues of resources and development more broadly, not just Ghana. But the Ghanaian election really caught our eye. Here in United States, we just went through the most expensive election in American history. Expenditures were about \$18 per capita. US income per capita is 25 times that of Ghana.

On a proportional basis, if you expect that Ghanaians to spend on elections like Americans do, they'd be spending a little less than a dollar per voter. Not the case, if reports from Ghana can be believed. It appears that expenditure in Ghana was roughly \$12 per person. That is absolutely a fantastic amount of money given that this is a relatively poor country.

The reason is Ghana has discovered oil and as a consequence, control of the state has become a very valuable commodity in itself. Oil was discovered in 2007. In the 2008 election, expenditures on the election broke all records in Ghana and the oil began pumping in December of 2010. They're now pumping oil.

The economy grew at 13 percent last year, the third or fourth fastest in the world. In this last election, as I indicated, expenditures went absolutely through the roof about \$12 per person.

Steve Weisman: We've discussed the term 'resource curse.' In this case, though, beyond the economic problems, you're suggesting that the abundance of resources has corrupted or distorted the political process.

Marcus Noland: In our book, we go through the traditional channels of the resource curse on the economic side -- whether or not resources have declining terms of trade, whether they are excessively volatile, creating problems for macroeconomic policy, the so-called Dutch disease and so on. But the real problem is in the political sphere.

The issue is that when you have point source resources, a thing like a mine or an oil field that are relatively easy to capture, this becomes a point of contestation for the state. In the worst case, this can actually lead to political violence and civil war. And in the really worst case, you can have civil wars. In countries -- like Ghana, for example -- that have a large diaspora of populations, you can have entrepreneurs and people who are living outside the country continuing to fund a civil war even if the local population, left up to their own devices, would have quit fighting and come to some sort of political agreement.

Moreover, countries with a lot of resources tend to be undemocratic. One reason is there is a lack of accountability. If you have lots of oil, you don't need to tax the population. In the United States we have no taxation without representation. Well in these countries, there's no representation if there's no taxation.

You also have the ability to buy off the opposition and to create patronage networks and, in the worst case, invest in the instruments of political repression. The losing candidate in the last election four years ago said, whoever wins this election, whichever political party wins this election, will control power in Ghana for 25 years because they will be in power when that oil revenue starts rolling in. They will be able to use those revenues to create a patronage network that simply will not be beatable in electoral terms.

Steve Weisman: The United States is always lecturing countries that—especially the countries in the Persian Gulf that depend on oil – about the need for democracy. Does this raise the question of whether resources will distort the democratic process and make things even worse?

Marcus Noland: It's a complicated situation. Clearly if point source resources are absolutely central to your economy, as they are for example, in Persian Gulf countries, then this creates a really very strange situation that really makes it inimical to democracy. But it's also the case that technology matters. For example, Ghana is relatively lucky that the oil discovered is offshore. By the very nature of geography, it's harder to contest than an oil field that would be located on land.

Likewise, I'm sure you and many of our listeners are familiar with the so-called blood diamonds. There are some countries in the world -- Botswana for example -- that manufacture lots of diamonds but don't have these sorts of problems. The reason is they are what we called deep shaft diamonds. You have to dig a mine very deep into the earth to extract those diamonds.

Whereas other countries like Liberia in West Africa have so-called alluvial diamonds, where all you need is a shovel and a sieve to get those out of a riverbed. Obviously, the technology in the kind of corporate organization that one needs for deep shaft or even offshore diamond mining is much different than a situation where a warlord can simply enslave some people, put guns at their back, order them into a riverbed and start extracting alluvial diamonds.

One of those technologies is more associated with political stability and relative transparency and the other of course has been associated with some horrific civil wars.

Steve Weisman: I'm going to stop there and we'll go to part two of this interview to talk more about the resource curse in Africa and elsewhere.

