

## THE FINANCIAL PAGE THE REAL PRICE OF OIL

Call them—as the press has—“breeding grounds,” “flashpoints,” or “powder kegs.” Whatever name you use, the struggling economies of the Middle East and North Africa, where unemployment is routinely above fifteen per cent and economic growth is minimal, are now recognized to be potent sources of unrest, as a parade of Presidents and Prime Ministers argued two weeks ago at the U.N. General Assembly. Worrying about poverty, of course, means worrying about the causes of poverty, and in the past two months we’ve heard myriad explanations for Middle Eastern deprivation: Western exploitation, Arab corruption, Islamic hostility to modernization, globalization, the failure of globalization, and a dearth of Western aid. What hasn’t been mentioned is oil.

Oil is usually thought of as a good thing—the only thing, in fact, keeping the Middle East and North Africa afloat. Without high oil prices, the argument goes, many of the countries in the region would sink into poverty and political chaos. But oil revenues are to the Middle East what heroin is to the junkie. Day to day, shooting up keeps you from feeling sick; over time, though, it keeps you from being healthy.

Countries like Saudi Arabia, Algeria, and Iran are textbook examples of what economists call “the resource curse.” Though rich in natural resources, they are poor. Or, rather, they are poor in part because they are rich in natural resources. A 1995 study of ninety-seven developing countries by the economists Jeffrey Sachs and Andrew Warner found that the more important natural resources were to a country’s economy, the lower its growth rate was. Of all the resource-rich countries they studied, only two were able to grow as fast as two per cent a year, while a host of the resource-poor nations grew much faster. “Just look around the world, and tick off the countries that are resource-rich,” Warner says. “They are not rich countries, and they obviously haven’t grown rapidly, because otherwise they would be.” The biggest economic flops of the last decade—Russia, Argentina, Nigeria—abound in natural resources.

Why does the resource curse exist? The simplest answer is that being dependent on natural resources makes a country less likely to invest in other things that might be economically valuable, especially manufacturing. In part, this is a question of prices. When a country like Saudi Arabia is flush with natural-resource money, everything in that country becomes more expensive, including labor. It’s difficult to open, say, a factory to make khakis for the Gap, because the khakis would be too expensive to compete with those made elsewhere. This hurts, because manufacturing, with its competitive pressures and its demand for technological innovation, is a key source of economic growth for developing countries. Natural resources are de-



pleted over time, while the benefits of technological innovation actually increase.

Natural-resource wealth also depresses entrepreneurialism. It costs Saudi Arabia almost nothing to get a barrel of oil out of the ground, but that barrel, even now, can sell for seventeen dollars. It’s a profit margin you’ll find in almost no other business in the world. And it makes other business opportunities less attractive. People who might be inventing new products or opening shoe factories instead spend their days figuring out how to get a share of the oil money. “If you can get a reasonable income without really working, lots of people will take that,” Howard Pack, an economist at the Wharton School, says. The problem is exacerbated by the fact that natural resources tend to

be controlled by state-run monopolies, which pretty much insures a low level of innovation and competitiveness, and encourages people to look to the state, instead of themselves, for solutions. In Saudi Arabia, only twenty per cent of the jobs in the private sector are held by Saudis, who prefer government sinecures.

A dependence on natural resources fosters the illusion that you get rich by taking what’s already there, rather than by creating something new. But the automobile, the electric turbine, and the computer chip were not there for the taking; they had to be created. There are countries that have recognized this and, in doing so, evaded the resource curse. Warner points to the example of Chile, which, despite vast copper fields, boomed in the nineteen-nineties. The growth rates of Malaysia and Indonesia over the past thirty years have far outpaced those of Middle Eastern states. And the little African nation of Mauritius became a powerhouse even though it started out with an economy that relied almost entirely on sugar exports.

These countries succeeded because they used their resource wealth to diversify their economies. They set up special export zones to encourage manufacturing. They countered the impact of high prices by devaluing their currencies. They opened their markets to free trade. And they invested heavily in education.

The oil-producing nations of the Middle East and North Africa, by contrast, have done none of these things. Their economies are still, for the most part, closed to the world. They have little or no manufacturing and, perhaps as a result, little or no technological innovation. They spend far more time fighting over how to divvy up the spoils than over how to create new wealth, which means that every economic decision becomes a political one. And they have invested very little in education. The oil producers are addicts. They prefer the comfortable squalor of staying hooked to the work it would take to kick the habit. Ultimately, the resource curse is less something they are afflicted with than something they have inflicted on themselves. Right now, the rest of the world is paying the price.

—James Surowiecki