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The Curse of Natural Resources. Paradox of Abundance: the Case of Venezuela

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Abstract: *In the middle of the 20th century, interest in the study of growth arose and the development of the world's economies, especially those on the African continent. The independence of African people after the Second World War showed how lack of industrialization and high dependency of natural resources brought a very low economic growth in most of these countries. Although the abundance of natural resources can mean wealth and prosperity to a nation, inefficient exploitation of these resources makes this event a curse and not a blessing. For this reason, the theory of the curse of natural resources appears, which explains the fact that countries rich in these resources are much more vulnerable to low rates of growth and development. In this sense, the present study examines how it materializes this economic phenomenon in Venezuela Finally, it will be shown how institutional weakness and inefficient exploitation of comparative advantage of the territory have become the biggest obstacles to get rid of the curse of natural resources.*

Keywords: *curse, natural resources, industry, economy, Venezuela, development.*

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Introduction

The term natural resource curse, also called the paradox of abundance, was coined in economic literature a long time ago. This paradox alludes to the fact that the possession of valuable resources for international markets do not always trigger growth processes and economic development. Rather, it pushes possessor countries to have low levels of development and a high dependence on a resource whose profitability, in most cases, is determined by the whims of international markets (Martin, 2021).

The concept of the "natural resource curse" is of great importance for political science because it provides a theoretical framework for understanding the political, economic and social dynamics that occur in countries rich in natural resources.

The main objective of this research is to identify the situation of countries that are victims of the curse and compare it with those that are considered success stories, to determine differentiating the factors capable of influencing development and economic growth, in order to find possible escape routes from this phenomenon. For this reason, throughout this writing we will analyze how the curse occurs in the case of Venezuela, its symptoms and effects.

In principle, it was expected as a country with an abundance of natural resources it will have better development rates and greater welfare for its population. That's what it sounds like logically since that country would have different options to choose how to carry it outgrowth and development using its abundance of resources.

The research question is whether wealth in natural resources is a blessing or a curse for the countries that own it? Finding the single correct answer to this complex question or task. Literature review in which empirical evidence is presented to this effect suggests the result as any this possible.

When a country is rich in natural resources, it can fall under three curses: being poor, having huge income inequality (something associated with poverty), and not being democratic.

It is the "paradox of wealth" ("paradox of abundance"). Switzerland or Japan should be extremely poor and yet they are among the richest countries in the world. However, Venezuela, Saudi Arabia, Russia or Iran are condemned to underdevelopment, and their history is characterized by political crises, dictatorships, revolutions. In the opinion of Ruben Ferrufino, the hypothesis of the curse of natural resources means assuming that countries that exploit non-renewable natural resources, have economic growth lower compared to those who, by not having this type of resources,

stimulate the technological development that allows them a more dynamic growth (Ferrufino, 2007).

This article examines the evolution of the Venezuela economy and society under optics of the resource curse theory. The objective is, after the achievement the succinct characterization of the arguments that support this hypothesis, as well as some criticisms it arouses, the verification of the suitability of the case of Venezuela, country characterized by its wide availability of oil, in theory. For this both macroeconomic and statistical information and reviews are used historical, which allow contrasting the degree of adequacy of the hypotheses from paradox with the reality of the case. After the analysis is over, we will see what the effects were economic and political met for the case study, while the social aspects do not have a long-term negative impact.

The objective of this section is to evaluate the fit of the case of Venezuela within the framework of the resource curse theory.

Methodology

It is stated that the analysis of the growth and influence of natural resources requires of temporal analyzes greater than 20 years, since no conclusions can be obtained on long-term growth with such short sample periods.

The dependence on specific raw materials for each country makes its growth strongly linked to the evolution of the price of said resource. When the price increases, strong periods of growth, and vice versa. Therefore, although the dependence of resource can negatively affect growth when its price declines (as the theory states), the reverse assumption also occurs, making the predominance extractive activity is positive in certain periods, as long as certain precautions to protect yourself from volatility (James, 2014). It can be seen how, when making changes to the variables that serve as an approximation to the availability of resources and their dependence, results are obtained that are not so favorable to the hypotheses of the theory. They are also used variables that, on the one hand, are not very sensitive to variations in the magnitude or characteristic they represent (too simple dichotomous indicators), as well as variables that give us information for specific years when it comes to an analysis of long term, not considering the changes that may occur throughout the period.

Another questionable point is the rejection of inequality indicators and the real relationship of exchange to explain the effects of the curse, when these two factors can be determinants in its evolution (inequality as it affects the levels of demand internal and the real exchange relationship

because it conditions the benefit that can be obtain from business relationships) (Gerlagh & Papyrakis, 2004).

From the various mechanisms of transmission that form the form, and through the evolutionary study of the case, it will be contrasted which of them are applicable to the historical development of the Venezuelan economy. Although that in the literature on the curse there is a certain tendency to individualize the causes that cause the worst economic performance of countries with abundant resources, these mechanisms, if they occur, can occur simultaneously, reinforcing each other. For this reason, it is necessary to compare indicators that point to each and every one of these transmitting mechanisms, to see which of them have acted or not in this specific case.

The rise of the theory

The resource curse theory has a relatively recent origin. In the decades of the 70s and 80s, this issue was already dealt with in some works, hand in hand with from authors like Alan Gelb (2004) or Richard Auty (1990). It was precisely these authors who used the term resource curse for the first time. Subsequently they have been numerous studies that have dealt with the so-called paradox of abundance, but it is worth noting the work of Jeffrey Sachs and Richard Auty in 1995 (Sachs & Warner, 1995), so like his successive works. We will take this investigation as a starting point for the analysis that continues along these lines.

Sachs and Warner conceptualize the phenomenon as the general tendency of economies with an abundance of natural resources to experience a slowdown in their growth relative to economies where they are scarce. This abundance leads to intensify the exploitation of the resource, generating a dependence on the economic environment to that sector. The evidence for the period between 1971 and 1989 shows that economies with higher ratio of primary exports to the total have a worse performance in terms of growth.

For a country, the possession of natural resources should, a priori, be an advantage. Intuition tells us that this availability constitutes a source of immediate primary wealth easy to obtain, which offers the possibility of increasing import capacity, allows the allocation of resources to investments and could be the origin of a growth path noticeable to a greater or lesser extent depending on the type of resource and its volume (Rostow, 1960)

However, on the contrary, these processes do not always take place. Moreover, they are observed numerous cases where resource-rich countries fail to sustain visible or stable growth. In the economic literature, there are

various arguments that deal with how this abundance of resources affects various factors in the development of a country.

The "natural resource curse" is a phenomenon in which countries rich in natural resources, such as oil or minerals, face significant economic and political challenges despite having access to these riches. Venezuela is often cited as an example of this phenomenon. Some of the key aspects of the natural resource curse in the case of Venezuela include:

Economic dependence:

Venezuela has historically relied heavily on its oil revenues. When oil prices are high, the economy can experience significant growth, but when oil prices are low, the economy suffers. This extreme dependence can make the economy vulnerable to fluctuations in international oil prices.

Oil price volatility:

The Venezuelan economy is strongly linked to international oil prices. Variations in these prices directly affect the country's income. At times of low oil prices, Venezuela has faced economic difficulties, including fiscal deficits and external debt.

Corruption and mismanagement:

The wealth generated by natural resources has often been mismanaged in Venezuela. Corruption and mismanagement have been persistent problems, leading to inefficient use of oil revenues and lack of investment in other sectors of the economy.

Social inequality:

Despite the revenue generated by oil, Venezuela has faced significant problems of social inequality. The wealth generated is not always distributed equitably, which can contribute to social and political tensions.

Inability to diversify the economy:

Overdependence on oil has led to a lack of diversification in the Venezuelan economy. The lack of investment in other productive sectors makes the country vulnerable to fluctuations in oil prices.

Political conflicts:

The management of natural resources, particularly oil, has been a central issue in political conflicts in Venezuela. The fight for control of oil revenues has contributed to political instability in the country.

It is important to note that the situation in Venezuela is complex and multifaceted, and other factors have also contributed to the challenges facing the country. The natural resource curse is a phenomenon that has affected several resource-rich countries, and overcoming it often involves structural reforms, transparency and effective management of resource revenues.

Natural resources: blessing or curse - the case of Venezuela

It is undeniable that many countries rich in natural resources paradoxically remain poor or become even poorer. Venezuela is a classic case of this "curse of natural resources." The oil-producing country is much poorer today than it was in the 1970s when it was the most prosperous in Latin America (Vásquez, 2017).

It is quite surprising that natural resources are talked about as a curse, when they should be a blessing. In economic terms it is like having an almost free factor of production.

They allow the development of comparative advantages not only in the production of that resource, but in related activities, such as agroindustry, petrochemistry and in general in technical services related to oil production, as is the case of Venezuela.

They also allow obtaining abundant tax revenues, especially from oil and mining. Considering the multiple advantages that natural resources have, the main question of this article is why they can be a curse and why it was and is a curse for Venezuela.

If the natural resources should be a blessing, but are a curse, what does it depend on whether it is one or the other?

The main reason has to do with economic policy in the sense that if they manage to have anti-cyclical fiscal and monetary policies, economic volatility can be reduced. Obviously, the influence of the political regime is a decisional factor because there are temptations to corruption.

In the case of Venezuela, the nature of the economic model, based on the ability to generate income of towards the oil industry establishes a special model of the evolution of the institutional structure. In this meaning, Lederman and Maloney (2007) suggest that the effect of natural resources on growth economic is usually uncertain in the long term (Lederman & Maloney, 2007).

The term natural resource curse, also called the paradox of abundance, was coined in the economic literature a long time ago. This paradox alludes to the fact that the possession of valuable resources for international markets do not always trigger growth processes and economic development. Rather, it pushes possessor countries to have low levels of development and a high dependence on a resource whose profitability, in most cases, is determined by the whims of international markets.

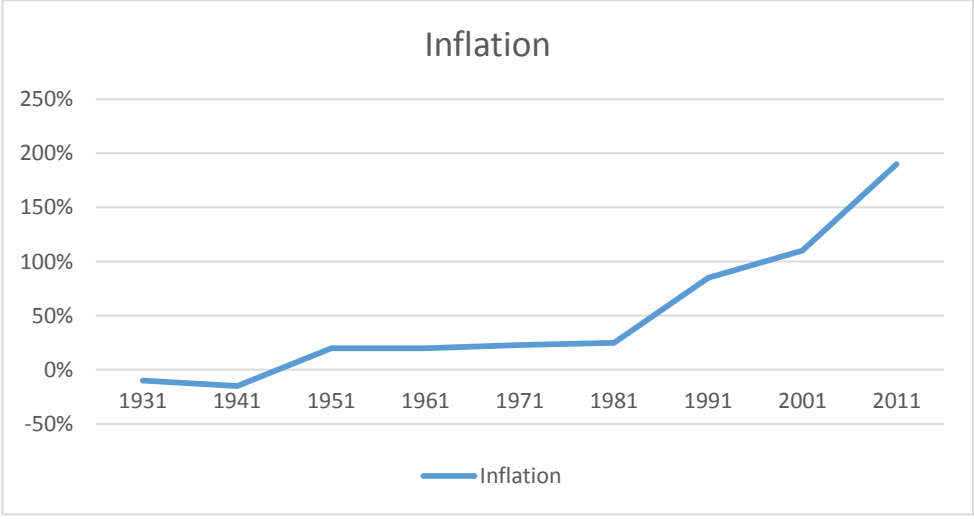
The Venezuelan economy has historically been dominated by the oil industry. This has led to an over-reliance on oil as the main source of income and foreign exchange, making the economy vulnerable to fluctuations in oil prices in the international market.

Over the years, inefficient management and corruption have plagued both the oil industry and the government in general. The lack of transparency and accountability has weakened government institutions and exacerbated economic problems.

Instead of diversifying the economy and promoting investment in other sectors, Venezuelan governments have relied heavily on oil revenues to finance social programs and subsidies. This has led to a fiscal imbalance and a lack of investment in infrastructure and human development.

Political polarization and social instability have hampered efforts to address economic problems in the country. Clashes between the government and opposition, as well as political repression, have contributed to uncertainty and deterred foreign investment.

Reviewing the historical inflation series, we clearly find two stages differentiated. One, until 1983, in which Venezuela maintained certain levels of inflation and deflation that, although in some cases reach notable values, never exceed the 25%. Another, from 1983 onwards, in which we find inflationary processes explosives, reaching an increase of 180.90% in 2015. (Graph 1 - Annual inflation rate of Venezuela).



Source: Own elaboration using data from Baptista (2016)

Obviously, there are other factors that become even more important than these. The episodes such as the debt crisis of the 1980s cause inflationary tensions provided that you choose to monetize or that it is a part of the debt, as well as any monetary expansion that is carried out without adequately measuring its effects.

Another of the arguments put forward within the theory of the resource curse is the tendency to generate social inequalities. The characteristics of the sector cause certain social classes and political elites to monopolize the income, while the rest of strata do not benefit from the effects. In the case of Venezuela, this point has important nuances that make it differ from this theoretical path, since the increase or not of inequality will depend on other issues, beyond the existence and exploitation of the natural resources. In fact, the existence of this type of income can serve as support for finance some redistributive strategies more easily, by having income that provide financing to said projects without requiring the contribution of other alternatives.

Conclusions

There is no doubt that, throughout the history of Venezuela, there are multiple episodes that lead us to think that its evolution fits within the channels of the so-called theory of the resource curse. However, a more concrete approach to each of the mechanisms of the theory allow us to discern which of them are applicable or not to the case country specific.

Regarding the economic aspect, within the scheme of the disease, we observe how, in general, all the elements that compose it are give or have given in some way throughout history. In this aspect, a key factor that deserves special dedication plays an important role: the volatility of the oil sector. This drifting trend in prices has generated multiple imbalances due to their negative impact on the external balance. The dependence on oil exports has on several occasions caused imbalances in the balance of payments, which is at the mercy of the evolution of the price of a single product.

Regarding the political aspects, we find that the main criticism made from theory, corruption has found a perfect ally in oil revenues in Venezuela. The characteristics of the sector and the public overreach that its management entails have allowed us to expand the base of the corruption and spread it widely throughout the bureaucratic structure. Finally, it is worth pointing out the social aspects. In this area the theses of the theory are they blur despite the current context of social conflict, and some episodes specific events and their repercussions on economic stability in the context of shocks negatives, the long-term analysis has allowed us to see that the availability of income of oil, thanks to a series of attached conditions, has sustained social pacification (despite the fragilities it may present) and coexisted with the establishment of the democracy (Rodrik, 2000).

These are the general conclusions of the research, although its content could be developed in a much broader way, focusing on each of the mechanisms and effects in particular and studying all the interrelationships that occur with other factors, both at the macro level and in relation to economic policy action, as well as making more detailed comparisons with other countries.

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