At Issue:

Will the resource curse stifle democracy in Libya?

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WRITTEN FOR *CQ GLOBAL RESEARCHER*, DECEMBER 2011

yes

If any Arab country could pull off a modern democracy it might be Libya, with its relatively high per capita gross domestic product, high urbanization rate, minimal government debt and projected revenues higher than expenses.

The danger is the resource curse. A vast amount of natural resources is like a large pile of juicy bones before a pack of hungry dogs. If the pack is well-organized and united around a common goal, some bones get used immediately, but the rest are stored for the future. Without that common goal, the mere presence of the pile destabilizes the pack, and each animal fights for control.

Norway is an example of a united pack, storing much of its oil wealth in a sovereign fund that invests oil revenues in overseas equities — relieving some pressures on the Norwegian currency and keeping its non-oil businesses competitive. This is clearly what Libya should do.

Nigeria is an example of a divided pack, where tribe fights tribe, religion fights religion, North fights South and armies fight militias for control of the country's oil. Dictator after dictator looks after his own group, while a high exchange rate makes it difficult to jump-start other businesses.

Libya resembles the divided pack. Members of the National Transitional Council are mainly loyal to their own regional identities. Land holdings are primarily based on family and community ties. Cities have strong independent histories and are made up of overlapping tribe-like communities. Whole cities, tribes and clans made collective decisions whether or not to oppose Moammar Gadhafi. The victors are now clamoring for their share of the spoils.

Who is going to deny them? None of these groups will trust the others, so each would raid a national future fund for its own benefits. There might be some prestige projects (like "broadband for all"), but every check and balance in the system gets manned by individuals who first identify with their own group. Deal-makers on the side of the oil companies are forging political connections with these groups to safeguard their own interests.

So there will be an election, followed by a gradual sifting-out of alliance members who are not needed to retain power. The best jobs will go to a smaller in-group defined by family, ethnicity and region. That group will subvert the democratic process, making Libya a kind of small Egypt with oil — a mini-Russia at best.

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WRITTEN FOR *CQ GLOBAL RESEARCHER*, DECEMBER 2011

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With the fall of Moammar Gadhafi, Libyans can build a society on principles diametrically opposed to those that propped up the late dictator's oil-based regime. The challenges are large, but, as other countries have shown, they can be met.

Libya's biggest problem is the so-called natural resource curse. Revenues from oil and gas represent more than half of Libya's economy. Unfortunately, in developing countries with weak institutions, such resources tend to be channeled through and usually monopolized by government, which then becomes corrupted, unresponsive to citizens' needs and less interested in advancing policies and institutions that create wealth for all.

That's certainly been the case in Libya. Since the early 1980s, the country of 6.5 million people received more than $450 billion in oil revenues. Yet economic, civil and political liberties have long been repressed, the state became the major employer, a third of the workforce is unemployed, a third of Libyans live below the poverty line and the World Bank says the rule of law is weaker in Libya than in about 80 percent of countries around the globe.

Not all resource-rich countries suffer from the curse, however. Chile overcame it, and diamond-rich Botswana avoided it. What sets successful countries apart from the rest? The Fraser Institute studied indicators of economic freedom, including rule-of-law measures, to find out. On a scale of 0 to 10, where 10 represents better institutional quality, the institute found a resource curse threshold of about 6.9 — the level above which countries broke the so-called curse. Thus, more economic freedom turns the curse into a blessing.

Libya is far below the point at which it could take advantage of its riches to make its people rich. Its new leaders would do well by significantly increasing the economic freedom of their people through reforms, such as eliminating burdensome regulations and securing private-property rights, including those for oil. Such moves would increase the government's legitimacy. After all, as Arab scholars point out, the Arab Spring began when Tunisian street vendor Muhammad Bouazizi set himself on fire after being denied the economic freedom to sell his goods — a grievance with which Libyans widely identify.

No iron law says Libya must remain cursed. The only barriers are ideological and political. Although often formidable, in this case they can be overcome by skillfully appealing to popular sentiment.