

# WebMemo



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## The 2008 Index: How to Escape the “Curse of Oil”

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An examination of the rankings of oil-rich countries in the *2008 Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*, reveals that, for the most part, citizens of oil-producing countries are stuck in poverty. Many live under brutal and dictatorial regimes. These factors combine to create what economists have long termed the “curse of oil.”<sup>1</sup>

But that does not mean oil-rich countries are doomed to economic mediocrity. As the following statistics will demonstrate, it is a nation’s policies, not its products, that determine its economic well-being.

Subsequently, oil-rich nations with opportunities to increase economic freedom, such as Iraq, should adopt policies capable of defeating the “curse of oil.”

**“Oil-Cursed” Countries Get Failing Grades.** As illustrated by Table 1,<sup>2</sup> the majority of countries from where most of the world’s oil supply is lifted fall into either the “Mostly Unfree” or “Repressed” rankings in the *2008 Index*. The high per capita income levels that would be expected in countries with great resource wealth are simply not present.

Many of these countries have low scores on most of the 10 freedoms that are reviewed in the *Index*, especially property rights, labor freedom, financial freedom and, above all, freedom from corruption, as described in the following excerpts from the *2008 Index*:<sup>3</sup>

- **Business Freedom:** “Iran’s economy is unfree in many ways. Business [is] regulated heavily by an intrusive and highly inefficient bureaucracy.

Obtaining a business license takes 670 days, compared to the world average of 234 days. Bureaucratic hurdles...increase the cost of doing business. Closing a business is difficult.”

- **Trade Freedom:** “Kazakhstan’s...non-transparent regulations and standards, service market access barriers, import licensing requirements, opaque government procurement, weak enforcement of intellectual property rights, and customs inefficiency and complexity add to the cost of trade.”
- **Fiscal Freedom:** “Russia has weak or average scores in every area. The top individual income and corporate tax rates are relatively low at 13 percent and 24 percent, respectively, but overall tax revenue is relatively high as a percentage of GDP.”
- **Government Size:** “Libya scores poorly in... government size.... Oil dominates the economy, and the government dominates the oil sector. Total government expenditures, including consumption and transfer payments, are very high.”
- **Monetary Freedom:** “Inflation [in Venezuela] is high...averaging 14.9 percent between 2004 and 2006. [Recent 2008 estimates are as high as 30

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[www.heritage.org/Research/TradeandForeignAid/wm1983.cfm](http://www.heritage.org/Research/TradeandForeignAid/wm1983.cfm)

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percent.<sup>4]</sup> Relatively unstable prices [are caused by] government controls [on] most prices through regulation, subsidies, and numerous state-owned enterprises and utilities and uses... guaranteed minimum prices to protect agricultural producers... [distorting] domestic prices.”

- **Investment Freedom:** “Investment is basically unwelcome [in Angola], corruption is crippling, and political influence mars the judiciary. Commercial regulations are a severe hindrance to opening and closing a business, and inconsistent, confusing regulations make it hard to operate a successful company.”
- **Financial Freedom:** “Brazil suffers from weak financial freedom and a large central government. Significant restrictions on foreign capital exist in many areas, and the government remains heavily involved in the banking and financial sectors.”
- **Property Rights:** “The right to hold and accumulate private property [in Venezuela] was further eroded in 2007 by changes in the constitution, nationalization, and expropriations.”
- **Freedom from Corruption:** “Corruption is perceived as pervasive [in Nigeria, which] ranks 142nd out of 163 countries in Transparency International’s Corruption Perceptions Index for 2006. Corruption is endemic at all levels of government and society, and the president, vice president, governors, and deputy governors are constitutionally immune from civil and criminal prosecution.”

- **Labor Freedom:** “Algeria’s labor market is shackled by restrictive employment regulations that hinder employment opportunity and productivity growth. Further flexibility in the labor market is needed to increase the private sector’s competitiveness.”

#### Exceptions That Prove the Rule

- **Chile:** How did Chile (*Index* rank #8) escape the “curse of copper”? The *Index* specifically praises the Chilean government’s openness to foreign investment as well as its effort to fight corruption and protect property rights. Overall, rule of law in Chile is “remarkably open and transparent.”<sup>5</sup> Furthermore, in 1985, the Chilean government created the Copper Stabilization Fund (later renamed the Economic and Social Stabilization Fund) “to hold excess copper revenues so that social spending can be maintained during periods of copper shortfalls.”<sup>6, 7</sup>
- **Norway:** The *Index* ranks Norway 34th in the world. “Norwegians enjoy high levels of business freedom, trade freedom, property rights, and freedom from corruption. The average tariff rate is low, although some non-tariff barriers complicate trade. Starting a business takes only a few days, and the overall protection of business operations is high. Norway has an efficient, independent judiciary that protects property rights effectively, and corruption is negligible.”<sup>8</sup>

#### The Best Solution: Get It Right from the Start.

Iraq is one oil-cursed nation that has been given a

1. “The Curse of Oil: The Paradox of Plenty,” *The Economist*, December 20, 2005, at [http://www.economist.com/business/displaystory.cfm?story\\_id=5323394](http://www.economist.com/business/displaystory.cfm?story_id=5323394) (July 7, 2008). See also Stephen P. A. Brown and Richard Alm, “Running on Empty? How Economic Freedom Affects Oil Supplies,” *Economic Letter—Insights from the Federal Reserve Bank of Dallas*, Vol. 1, No. 4, April 2006, at <http://www.dallasfed.org/research/ecllett/2006/el0604.html> (July 9, 2008).
2. See Brown and Alm, “Running on Empty?” Table 2.
3. All *Index* quotations in the 10 freedoms are from Kim R. Holmes, Edwin R. Feulner, and Mary Anastasia O’Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at <http://www.heritage.org/index/countries.cfm>.
4. Fabiola Sanchez, “Venezuela’s monthly inflation hits 3.2 percent, highest this year,” *Associated Press*, June 9, 2008.
5. Holmes, Feulner, and O’Grady, *2008 Index*, pp. 137–138.
6. Chloe Hayward, “Sovereign wealth funds: Copper lifts Chile’s reserves,” *Euromoney*, April 2008, at <http://www.euromoney.com/Article/1899676/SubPage/9449/ChannelPage/0/Region/12/Sovereign-wealth-funds-Copper-lifts-Chiles-reserves.html> (July 7, 2008).
7. “Background Note: Chile,” U.S. Department of State, Bureau of Western Hemisphere Affairs, January 2008, at <http://www.state.gov/r/pa/ei/bgn/1981.htm> (July 2, 2008).
8. Holmes, Feulner, and O’Grady, *2008 Index*, pp. 301–302.

chance to start over. Having recently traded a dictatorship for a fledgling federal constitutional form of government, officials in the oil-rich autonomous Iraqi region of Kurdistan want to capitalize on the stability fostered by the U.S. and Iraqi military forces. Under the newly established Iraqi federal system, the Kurds have gained the right to exploit their extraordinary oil reserves and are planning to manage these resources more like the Chileans or Norwegians and less like the Venezuelans or Nigerians.

The Kurds, too, believe that sharing the prosperity from the oil fairly (thereby raising per capita income) and planning for a brighter future requires economic diversification. Kurdish leaders have stated that they do not want an “oil economy” and will place equal emphasis on sectors such as agriculture and tourism.<sup>9</sup> They are actively encouraging private investment and business formation.

The Sunni and Shiite Iraqis should take notice. There is no reason they or other oil-rich nations cannot follow suit.

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## Comparing Freedom Among Oil-Producing Nations

Country	2008 Index of Economic Freedom Rank	Percent of World Oil Reserves in 2008	Per Capita Income
<b>Free</b>			
United States	5	1.6	\$45,845
Canada	7	13.4	\$38,435
<b>Total</b>		<b>15.0%</b>	
<b>Mostly Free</b>			
United Kingdom	10	0.3	\$35,134
<b>Total</b>		<b>0.3%</b>	
<b>Moderately Free</b>			
Norway	34	0.5	\$53,037
Kuwait	39	7.8	\$39,306
Oman	42	0.4	\$23,967
Hungary	43	0.0	\$19,027
Mexico	44	0.9	\$12,775
Malaysia	51	0.3	\$13,315
Saudi Arabia	60	20.0	\$23,243
Belize	61	0.0	\$7,863
United Arab Emirates	63	7.3	\$37,293
Qatar	66	1.1	\$80,870
Kazakhstan	76	2.3	\$11,086
<b>Total</b>		<b>40.6%</b>	
<b>Mostly Unfree</b>			
Egypt	85	0.3	\$5,491
Brazil	101	0.9	\$9,695
Algeria	102	0.9	\$6,533
Nigeria	105	2.7	\$2,035
Ecuador	106	0.3	\$7,195
Azerbaijan	107	0.5	\$7,656
Argentina	108	1.0	\$13,308
India	115	0.4	\$2,659
Indonesia	119	0.3	\$3,725
Gabon	122	0.2	\$14,083
Yemen	125	0.2	\$2,335
China	126	1.2	n/a
<b>Total</b>		<b>8.9%</b>	
<b>Repressed</b>			
Russia	134	4.5	\$14,692
Angola	143	0.7	\$5,590
Syria	144	0.2	\$4,488
Venezuela	148	6.5	\$12,166
Iran	151	10.4	\$10,624
Libya	154	3.1	\$12,277
Iraq	n/a	8.6	n/a
<b>Total</b>		<b>34.0%</b>	

Sources: U.S. Department of Energy, Energy Information Agency; Organization for Economic Co-operation and Development; (International Monetary Fund), World Economic Outlook Database, April 2008.

Table 1 • WM 1983 [heritage.org](http://heritage.org)

9. Ben Lando, “Tourism, not terrorism: Resort rising in semi-autonomous northern Iraq,” *The Washington Times*, June 18, 2008, p. A21.