



By: *Jeffrey Frankel*

# Is the US Falling Victim to the Resource Curse?



It would appear reasonable to expect that countries with huge natural-resource wealth (oil, natural gas, minerals, and even agriculture) would have a leg up on less-endowed countries.

Yet resource-rich countries in Africa, the Middle East, and Latin America have often failed to achieve the prosperity that some resource-poor islands and peninsulas in East Asia have.

Now, some believe that this “resource curse” might be claiming a new and unlikely victim: the United States.

The curse is real. The negative correlation between natural-resource exports and economic performance is statistically significant in a sample of 113 countries.

In 1970–2024, countries where fuels and minerals constituted half of exports averaged 0.9 percentage points lower GDP growth annually—49% cumulatively—than countries without resources.

A [survey of research](#) on the resource curse reveals four possible transmission channels.

The first is commodity-price volatility: frequent switching among sectors in response to ever-changing price signals creates costs and discourages investment.

The second channel is known as [Dutch disease](#). As a commodity-price boom induces real exchange-rate appreciation, non-commodity tradable sectors—specifically, manufacturing—become less competitive.

The result is a macroeconomic shift away from these sectors and into non-traded goods and services, like housing and government activities.

Since manufacturing is what delivers dynamic gains—learning by doing, technological progress, and innovation spillovers—the overall effect on economic growth is negative.

## Institutional channels

The remaining channels are [institutional](#). Natural-resource endowments can lead to anarchic institutions, resulting in the rapid depletion of non-renewable resources and political instability, even civil war.

Heavy dependence on natural resources also tends to result in rent-seeking and corruption, facilitating the entrenchment of autocratic and oligarchic systems, which are prone to policy failures.

A government that [controls oil or minerals](#) has less need for tax revenue, and thus has little incentive to foster democracy and decentralized private-sector growth.

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This dynamic was apparent in Europe’s American colonies. The original assumption was that Spain’s colonies in Latin America were more valuable than Britain’s in North America, because they had minerals like gold and plantation crops like sugar. (Gold had not yet been discovered in North America.)

But pervasive rent-seeking, social stratification, and the rise of oligarchy meant that these endowments brought limited benefits for development.

By contrast, Britain’s colonies had little choice but to foster a dynamic private sector, particularly after they gained independence.

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## The US is acting like a petrostate

Today, the US remains the world's largest economy, with a dynamic and wealthy private sector.

And yet, it is increasingly acting like a **petrostate**. US **oil and gas production** got a major boost around 2009, thanks to an impressive technological revolution in shale energy.

But it was US President Donald Trump's return to the White House last year that brought an **aggressive shift** toward oil and gas, at the expense of renewables.



*Trump is wrong. Near-miraculous advances in the production of goods like solar panels, windmills, electric vehicles, and batteries have caused the costs of renewable energy to plummet in recent years, making it competitive with fossil-fuel energy*

Trump claims that fossil fuels are vital to American security, power, and prosperity, whereas **renewables are a "joke"**—expensive, unreliable, and incapable of meeting America's needs. And he has used a range of tools to enact this narrative.

As he has increased fossil-fuel subsidies, including offering below-market leases for drilling on federal lands, he has rolled back the subsidies for renewables enacted by his predecessor, Joe Biden, blocking permitted wind and solar projects, and canceling relevant federal loans.

But Trump is wrong. Near-miraculous

advances in the production of goods like solar panels, windmills, electric vehicles, and batteries have caused the costs of renewable energy to plummet in recent years, making it competitive with fossil-fuel energy.

All Trump is doing is ensuring that the US is excluded from this progress, which is happening **largely in China** and, to a lesser extent, Europe.

## Iran war

The Nobel laureate economist Paul Krugman argues that the revival of US fossil-fuel production since 2010 has crowded out manufacturing in general and renewables in particular.

His back-of-the-envelope calculation suggests that the shale-energy boom has left US manufacturing around 10% smaller, and manufacturing employment about 1.3 million lower than it would have been otherwise.

Is this the resource curse at work? I have my doubts. Of the four transmission channels, two are said to apply to the US today: the fossil-fuel industry is crowding out sectors (renewables and other manufactured goods) that might be producing more dynamic gains, and soaring wealth among fossil-fuel owners is having a corrupting political influence.

There are certainly signs of both. But oil and gas, as well as agriculture, accrue dynamic gains from technological spillovers and learning by doing, just like manufacturing and, more recently, renewable energy.

Moreover, the enormous productivity increases in farming and mining that the US has recorded over its history—thanks partly to federal support for research—did not foreclose enormous productivity increases in manufacturing.

The same has been true in Australia, Chile, Norway, and, increasingly, Southeast Asia.

The key is to have the right conditions in place to allow many sectors to thrive: a robust rule of law, low corruption, checks on the executive, an independent judiciary, macroeconomic stability, free trade, and public support for research

Policies that facilitate the flourishing of the natural-resource sector need not come at the expense of manufacturing or other sectors.

The key is to have the right conditions in place to allow many sectors to thrive: a robust rule of law, low corruption, checks on the executive, an independent judiciary, macroeconomic stability, free trade, and public support for research.

With the Iran war, which has driven oil prices to nearly double their pre-war rate, US oil companies now have even more incentive to increase production.

But the war—horrific in virtually every respect—might also have a faint silver lining: faced with higher fossil-fuel prices, users will embrace renewables, stimulating further productivity gains there.

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