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Dictatorships as a Political Dutch Disease

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Note: Center Discussion Papers are preliminary materials circulated to stimulate discussions and critical comments.

DICTATORSHIPS AS A POLITICAL DUTCH DISEASE

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Abstract

We present a model to explain why natural resource windfalls tend not only to lead to slower economic growth but to generate and reinforce authoritarian tendencies in Third World political regimes. In the model, the political elite's power over the populace is derived both from its own wealth and its control over the process of rent distribution among members of the populace (distributive influence). We show that resource windfalls enhance the elite's distributive influence. An increase in the elite's distributive influence generates hegemonic political regimes and exacerbates the decline of the economy. We present wide-ranging empirical evidence to support our theoretical insights. In particular, we find the size of the natural resource sector, measured by the ratio of primary exports to GDP, to be a far more significant predictor of the nature of political regimes than the level of GDP, education, or income inequality.

Keywords: Dutch Disease, Rent-seeking, Influence Activities, Political Regimes.

J.E.L. classification: O13, P16, Q32

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