The Hydrocarbon Industry and the Social Structure of Oil Led Economies

by

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INTRODUCTION

The association between oil led development and slower economic growth, economic diversification, higher levels of poverty, unemployment and higher social inequity.

The expectation that oil would lead to development and wealth of the host countries have not been realized.

Instead, developing countries whose GDP and government revenues are mostly oil derived are marked with a culture of rent seeking, government corruption, devastating environmental consequences, and high levels of conflict.

Why the Doom of Hydrocarbon?

- 'Too much of a good thing is not always good.'
- Negative economic consequences are common in oil dependent and oil ed developed countries.
- Developed countries eg. USA, Canada and Australia have escape some of the negative economic fallouts.
- Vulnerability to these negative economic fallouts are due to a number of factors:

I. Strength of political institutions and leaders
II. Separate accounts for economic development
III. Educational investment

RESOURCE CURSE

What is the **Resource Curse**?

Impacted by the following:

1) Dutch Disease
2) Instability or volatility of oil prices
3) Weak political institutions
4) Capital intensive industry
5) Poor emergence of down streaming industries
6) Lack of ownership and control of hydrocarbon industries

Poverty and Social Welfare

Most significant outcomes that the resource curse has upon oil led economies are:

- ✓ gross levels of poverty
- ✓ socio-economic inequity
- ✓ poor infrastructural development
- ✓ disease burden populations
- ✓ low sanitation
- ✓ high child mortality
- ✓ poor educational attainment

Contradicts the belief that these resource rich nations should not have the above mentioned negative consequences occurring!

THE HARM OF SOCIAL INEQUITY

- “Trickle down” effect from economic growth is claimed to be the best way to overcome poverty.

- High levels of inequality makes it difficult to reduce poverty even when economies are growing……… “poverty and inequality are part of the same problem.” (UNRISD).

SOCIAL INEQUITY

Distribution of income or consumption in oil exporting countries

Country	Year	Gini index	Population			
			Lowest 10%	Lowest 20%	Highest 20%	Highest 10%
Brazil	**2004**	**57.0**	**0.9**	**2.8**	**61.1**	**44.8**
Canada	2000	32.6	2.6	7.2	39.9	24.8
Iran	**2002**	**43.0**	**2.0**	**5.1**	**49.9**	**33.7**
Mexico	**2004**	**46.1**	**1.6**	**4.3**	**55.1**	**39.4**
Nigeria	**2003**	**43.7**	**1.9**	**5.0**	**49.2**	**33.2**
T&T	1992	38.9	2.2	5.9	44.9	28.8
USA	2000	40.8	1.9	5.4	45.8	29.9
Venezuela	**2003**	**48.2**	**0.7**	**3.3**	**52.1**	**35.2**

World Development Indication (World Bank , 2008).

POVERTY

Population living under US $1.25 and $2 per day

Country	Population (%)	
	< US $1.25/ day	< US $2.00/ day
Algeria	**6.8**	**23.6**
Brazil	6.1	10.8
Iran	2	8
Mexico	1.2	5.2
Nigeria	**68**	**84**
Trinidad and Tobago	4.2	13.5

United Nation Human Development Report, 2008.

POVERTY

Population living under the poverty line

Country	Year	Percentage (%)
Algeria	**2006**	**23**
Brazil	**2008**	**26**
Canada	2008	9.4
Iran	2007	18
Mexico	2008	18.2
Nigeria	**2007**	**70**
Trinidad and Tobago	2007	17
United States of America	2004	12
Venezuela	**2006**	**37.9**

CIA World Factbook , 2011.

HEALTH CARE

Life expectancy and total expenditure of GDP on health care

Country	Life expectancy (Years)	Percentage GDP on healthcare (%)
Algeria	78	**4.3**
Brazil	72	7.9
Canada	**81.1**	**9.6**
Iran	71.1	6
Mexico	76.1	6.1
Nigeria	**46.9**	**4.7**
Trinidad and Tobago	70.9	**3.7**
United States of America	**78.1**	**14.6**
Venezuela	73.6	**3.9**

US Bureau of Statistics , 2007

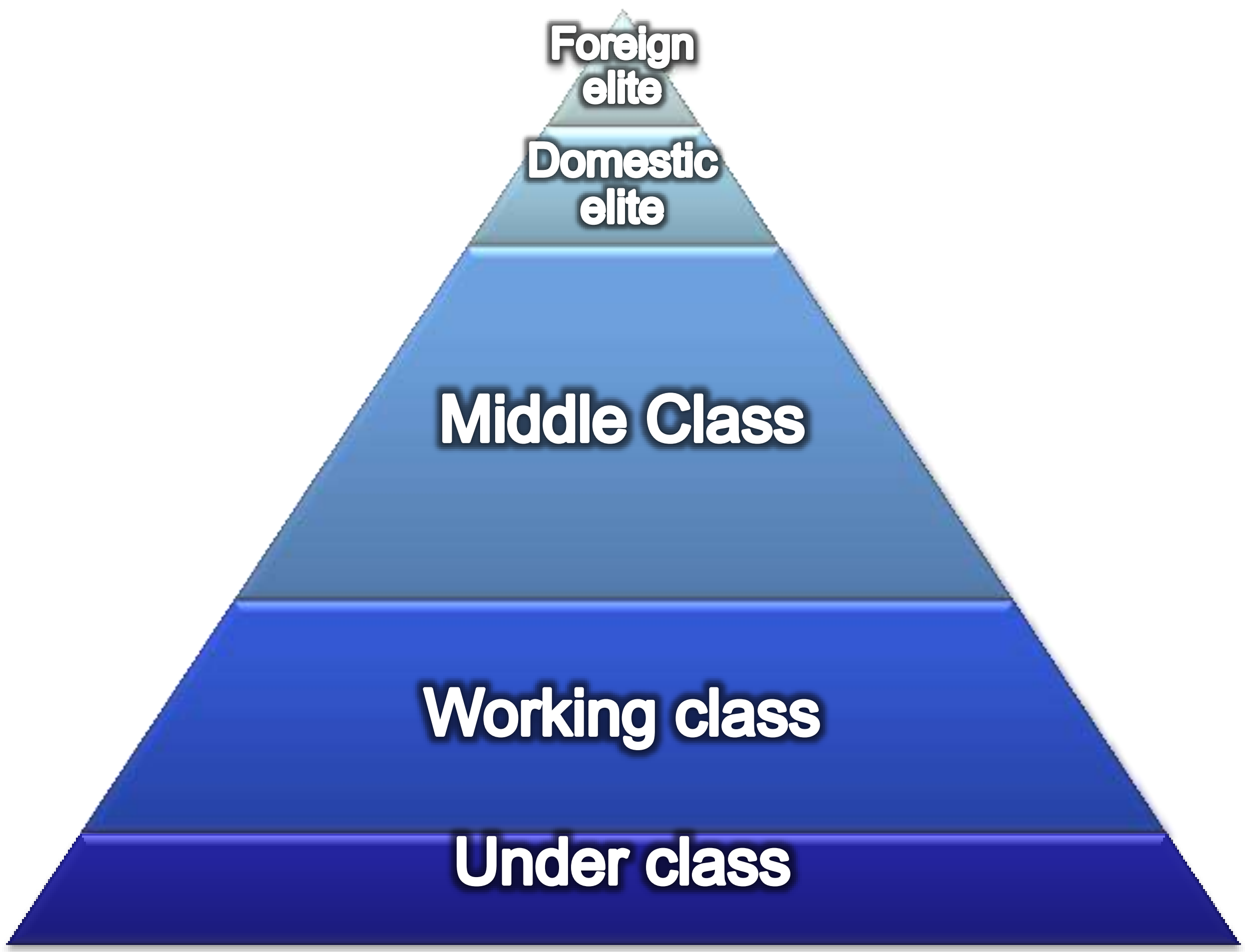
EDUCATION

- Education in oil led economies also performs worse off than anticipated, which further affects paths towards growth and development.

- Literary rates in resource cursed countries are low eg. Nigeria.

- Quality of education is often questioned in oil – export countries, eg. Trinidad and Tobago.

SOCIAL STRUCTURE OF OIL- LED COUNTRIES



Social Structure
- Foreign Elites -

- The dominance of the foreign elites (through the Multi National Corporations' (MNC)) who control the means of production.

- The social structure of foreign dominance and position at the top of the social structure is perpetuated.

- The continuation and extension of the plantation system.

SOCIAL STRUCTURE
- DOMESTIC ELITES -

- Domestic elites lack the capital to invest in the extraction and production of mineral resources.

- They align themselves with either the MNC or the state.

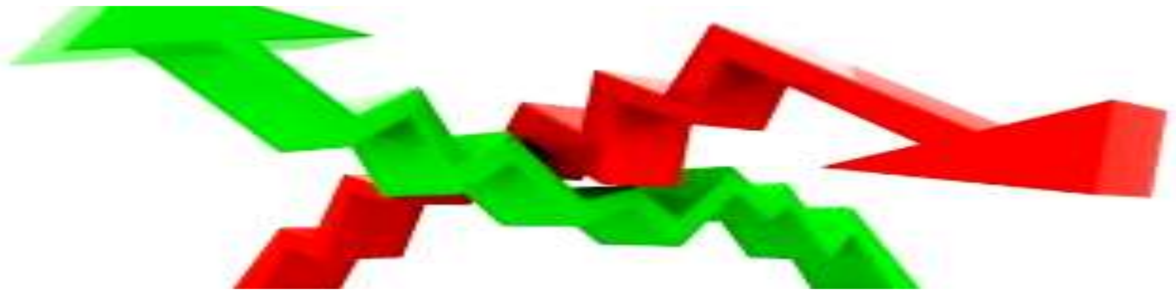
- Their position is vulnerable.

Social Structure
- Middle and Professional Classes -

Three sectors of employment in oil exporting countries:

I. Oil
II. State
III. Private

Middle and professional workers are vulnerable to boom and bust cycles of the oil economy.



SOCIAL STRUCTURE
-WORKING CLASS -

DUTCH DISEASE → **URBANIZATION**

Social Structure
- Under Class -

- In-migration due to high levels of oil culture and poor work attitudes of the local populations.
- Migrant workers face social inequity and injustice as there are poor regulations centring on migrant labour and there is a lack of unions.

CONCLUSION

- The resource curse in oil-developed countries is associated with high levels of poverty, inequity, rigid socio-economic class structure, and low investment in social, health and educational services.

- The trickle down effect anticipated have not materialized from oil led development.

- The social structure from the plantation economy has been further modified and extended in the case of Trinidad and Tobago (Best and Levitt 1968; Beckford 1972).

- However the resource curse is perpetuated in countries which have weak social, economic and political institutions. Thus the relationship between oil led development and poverty and social inequity is not simple and unambiguous.