Growth Week 2012

Natural Resources Plenary
Wednesday 26 September 2012

Natural Resources Plenary: Summary

Chaired by *John Page (Brookings and IGC)*, the Natural Resources plenary session featured a presentation by *Bob Conrad (Duke)*, "Good News for Growth in Natural Resource-Rich Economies: There's Nothing Special about Natural Resources." Conrad explained that there is much talk about special regimes for managing natural resources, but he thinks that the "unique" characteristics of oil and mining industries may not matter for policy. There is of course volatility and uncertainty in prices, but are natural resource prices any more risky relative to other commodities? Conrad explained that there is no strong indication that this is the case and also noted that natural resource prices are sector specific and that the risk can be diversified. The question of volatility needs to be asked in the context of relative prices and relative volatility.

Conrad also explained that when a country has natural resources, its government may take one or more (usually at least two) of the following roles: resource owner, tax collector, investor, and/or mine operator. In his discussion of these roles, Conrad highlighted the issue of royalties. He mentioned that royalty paid needs to be equal to the marginal social cost of extracting reserves, and if this is not zero, it may be efficient to use a royalty. There are a number of reasons to believe that the marginal opportunity cost of reserves is not zero: extraction may be valuable in the future, the government may want to ensure that some reserves are left, and there is an opportunity cost to extraction, as people may have alternative uses for the land (farming, fishing, building houses etc). Countries with natural resources own something of value at the margin, and they should charge a royalty if they believe the extraction of reserves will reduce the wealth of the economy at the margin. If there are rents generated, the country should tax these in all sectors, rather than treating natural resources as a separate sector.

A common question for governments of natural resource rich countries is what to do with the revenue generated. Conrad made it clear that the total revenue accrued from natural resources is not all income, which is a common but incorrect assumption. Instead, governments must understand that income = revenue minus depletion, and thus they must consider depreciation when determining the income available for saving or other uses. This consideration is the same for all assets, both state and private, and is not unique to natural resources. Conrad emphasized that the government should report this depreciation and should save the income it earns in order to protect its capital stock. Countries need to be realistic and need to consider all of their assets, including natural resources. Natural resources can help boost growth, but a given government should not try to build its entire economy on natural resources. Conrad concluded by noting that his "good news" is that governments can treat natural resources just like any other asset. This means that there is thus potential for more rational, more efficient allocation and a fiscal regime that can help improve growth.