

# The Resource Curse and Fiscal Policy†

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## Abstract

Recent discoveries of natural gas reserves, and continued exploration in the Eastern Mediterranean, have attracted the attention of investors to the region. Interestingly, many studies have highlighted that in general resource-rich countries grow more slowly than their resource-poor neighbours, rather than growing faster as would be expected. This literature has been labelled the “resource curse”, since it suggests that natural resources have been a curse more than a blessing for many countries, creating social tensions, governance problems, and economic distortions, that have hampered rather than facilitated growth. In this study, we analyse how natural-resource revenues should be managed, first by looking at the prescriptions of the theoretical literature, and then at what has been done in practice in a selected range of countries, including both failure stories, and success stories. These case studies help to highlight the pitfalls that should be avoided and the practices that have proved successful, and should be of particular interest for countries like Israel and Cyprus, which have unveiled or may be in all likelihood about to unveil new stocks.

**Keywords:** Resource Curse, Fiscal Policy, Economic Growth

**JEL:** Q30, E62, E40

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