

The Long-Run Effects of Oil Wealth on Development: Evidence from Petroleum Geology

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What I like about the paper

- (1) Is the research question of interest to us?
- (2) Can the question be answered in the setting we have?
- (3) Do the author(s) do a satisfactory job of exploiting the setting?

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The answer to every one of these questions is a resounding YES! It's an important question in the social sciences, examined using a persuasive IV which allows for credible identification, and the author does a very careful job - both in piecing together a plethora of data sources

What the paper examines

- Research Qs.: What is the effect of oil wealth on development?
- Concern: Oil production is clearly endogenous; need to instrument oil wealth
- Instrument used: Data on the spatial distribution of sedimentary basins

Summary of findings

- Oil wealth negatively affects
 - Democracy &
 - Average tax revenue as a share of GDP

- Oil wealth leads to more purges of political rivals

- Oil wealth leads to higher GDP/ capita

- Effects are concentrated among countries with weak institutional constraints on the executive

Suggestions

- Look for other outcomes of interest such as longevity and educational attainment; also on the variability in the level of democracy over the period 1966-2008
- For corruption also consider measure of corruption from the Transparency International's Corruption indices
- Preferred IV: Area covered by basins 1 and 2 per 1,000 inhabitants
 - A discussion of why this IV performs better than other possible measures
 - Some discussion on the hydrocarbon productivity of basins of various kinds
- Rather than looking at all tax revenue, could one look at direct tax revenue? (Riezman and Slemrod, 1987)

Other thoughts

- Provide a case example (or two) pointing to the negative effects of oil wealth on development
- Interpretation of coefficients is difficult; dependent variables are being expressed in log terms (e.g. Norway and Finland GDP per capita are 11.09 and 10.65 respectively)
- A slightly more detailed discussion of why the IV and OLS estimates differ for the various d.v.s
- Assigning no oil as quality 1 seems odd
- Discuss if this technique can be replicated to other contexts as well or is oil unique in some manner