

Why does natural resource abundance not always lead to better outcomes? Limited financial development versus political impatience

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Is the failure of natural resource abundance to achieve better economic outcomes due to limited financial development or fiscal policy short-termism? I answer this question in a precautionary savings model where both resource revenues and asset returns are uncertain. Calibrating for Colombia, I find that under policy impatience, welfare costs are large, net assets are insufficient and net discretionary expenditures are too sensitive to resource revenues. If financial markets are underdeveloped, we can generate welfare costs of the same magnitude but not also explain why there are insufficient net effective assets, nor the heightened sensitivity to revenues.