Does Oil Corrupt?
Theory and Evidence from a Natural Experiment in West Africa

Pedro Camarinha Vicente*

July 8, 2005 - Comments Welcome†

Abstract

This paper presents a general framework and an original dataset/experiment to assess the role of natural resources in determining corruption. We argue that the impact of an oil discovery on corruption should be analyzed in the context of a repeated game where an endogenous elite interacts with the population - the first determines the level of corruption, and the second may react by starting insurrections. We show that only in the “bad” equilibrium pattern of this game, characterized by high corruption and social unrest, does an anticipated positive shock on the corruption technology immediately increase corruption (as the elite wants to augment the likelihood of being in power when the shock occurs). We take this proposition to the data by analyzing the impact of the oil discovery announcements that took place in the period 1997-99 in São Tomé and Príncipe (West Africa). For this purpose we designed and conducted a household survey on perceived corruption in the public services/sector of the country (including 841 face-to-face interviews) – the survey instrument was retrospective and used personal histories to elicit memories from the respondents. We use difference-in-differences regressions to draw results for the various questions on perceived corruption. Urban subjects, public officials, and respondents with higher reported experience with the services/issues at stake are used as treatment groups (i.e. more able to recognize any change). In addition, the regressions control for well-known pessimism bias: this is done by using data from direct questions on optimism and from the inclusion of a “placebo” period (where no major occurrence had arisen). We conclude that a clear increase in perceived corruption has occurred in São Tomé and Príncipe in recent years - with special incidence in health care, education, police, state jobs, customs, licenses, and vote buying.

JEL Codes: D73, O13, O55, P16.

Keywords: Corruption, Influence, State Capture, Political Economy, Natural Resources, Oil, West Africa.

*I wish to thank primarily Marianne Bertrand, Casey Mulligan, and Roger Myerson for invaluable advice and encouragement. I am also grateful for suggestions to Cátia Batista and Christopher Udry (both theoretical and empirical parts), Gary Becker, Sven Feldmann, Daniel Kaufmann, Luis Rayo, Philip Reny, and Hugo Sonnenschein (theoretical part), Alberto Camarinha, Diana Jergovic, Steven Levitt, Martin Ljunge, Kenneth Rasinski, Allen Sanderson, Gerhard Seibert, Susan Stokes, and Robert Townsend (empirical part). I thank participants in seminars at University of Chicago (Development Workshop, Micro Lunch, Political Economy Workshop), University of Stellenbosch (VIII Conference in Econometric Modeling for Africa), University of Copenhagen (II Nordic Conference in Development Economics) for comments. I am grateful for institutional support to Lúcio Pinto at Instituto Superior Politécnico de São Tomé e Príncipe and to my co-interviewers in the survey conducted in São Tomé and Príncipe, Carlos Castro, Angelson Coelho, Emir Lima, Adilson Pinto, Hermínia Santos, Dwight Solé, Edson Solé, Diosdado Vicente. I gratefully acknowledge financial support from the (Portuguese Government) Fundação para a Ciência e a Tecnologia (BD1215/2000), Fundação Calouste Gulbenkian, Department of Economics at the University of Chicago, and Henry Morgenthau Jr. Memorial Fund. All remaining errors are my responsibility alone.

†Email: pvicente@uchicago.edu. Post: Department of Economics, University of Chicago, 1126 East 59th St., Chicago IL 60637, USA.