

Doctor of Economics

Resource Abundance and Public Sector Employment: Implications for Labor and Welfare.

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Abstract:

A considerable body of literature has explored the resource curse, a phenomenon where natural resources paradoxically diminish welfare rather than enhancing it, sometimes also referred to as the paradox of plenty. This discourse has predominantly focused on income as the measure of welfare, noting that rents from natural resources can negatively impact the overall income of resource-rich economies. In my dissertation, I explore a new dimension of the paradox of plenty: rather than liberating citizens in resource-rich economies from the need to work, resource rents appear to have the counterintuitive effect of increasing their labor input without a corresponding rise in income, including rents. I propose a theory that explains this anomaly: when the preferences of policymakers and citizens diverge—specifically regarding the size of public sector employment and the amount of public goods provided—more natural resources may lead to reduced income *and reduced leisure*. I demonstrate that resource rents, when primarily allocated to expand the provision of public goods beyond the population's demand, and consequently increased public sector employment result in individuals working more hours for lower incomes. When wages in the private sector are volatile, the preference for stable public sector employment increases, driving people to accept lower government pay and to make up for the drop in income by supplying more labor. Integrating this insight with theories of ethnic favoritism, I shed light on the debated correlation between the size of public sector employment and resource abundance. The existing literature on this correlation has been largely theoretical and anecdotal. My empirical analysis reveals that in countries with low ethnic fractionalization there is a positive correlation between resource abundance and the size of public sector employment and, alongside downward pressure on public sector wages. Conversely, in countries with high ethnic fractionalization, higher resource rents correlate with fewer but higher paying government jobs. Finally, I take a normative stance and give a policy recommendation: the implementation of a universal basic income is a potential solution to mitigate the adverse effects of the resource curse.