

# THE POLITICAL ECONOMIST

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## FROM THE EDITORS

The first issue of the *Political Economist* under our editorship addressed a man-made disaster: the global financial crisis of 2008 (and beyond). This issue shifts attention to the political economy of natural disasters. With memory fresh of the Japan earthquake and subsequent nuclear crisis at the Fukushima power plant, it seems an appropriate time to take stock of what we know about the interaction between natural hazards and social institutions.

Our first feature essay, by Daniel Aldrich, focuses on lessons from the recent Japan earthquake. A second, by Thomas Plümper and Eric Neumayer, surveys what we know about earthquake mortality and damage. David Victor rounds out the issue with a “what to read” column that examines connections between the vast literature on the political economy of natural resources and the nascent field of the political economy of natural disasters.

Two broad lessons emerge from the contributions here. First, there is no hard-and-fast line between a natural and a man-made disaster. Rather, the impact of a natural disaster is conditioned by choices made both before and after disaster strikes. Second, the study of those choices is still in its infancy. The dearth of formal work is particularly striking. Young scholars looking for a place to plant their intellectual flag should consider building on the fascinating work discussed in this issue.

As you read this issue, please remember that you can leave comments at the same APSA Connect

page where you downloaded the newsletter. Alternatively, join the discussion at the Monkey Cage, a blog run by political scientists, where we have posted selected content. As always, we hope that each issue of the *Political Economist* is the start of a discussion, not the end of it.

We would also like to take the opportunity to remind members to come to the Section’s business meeting at this year’s APSA meeting. Among other matters, we will be voting on the establishment of the Fiona McGillivray Award: please see the announcement in this issue. We meet at 12:15 on Friday, September 2 in Room 308 of the Washington State Convention Center. Sandwiches will be served!

Last but not least, please don’t forget the many excellent panels at APSA sponsored by the Political Economy Section. Hope to see you in Seattle!

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## FEATURE ESSAY

### The March 2011 Earthquake, Tsunami, and Nuclear Crisis in Japan: A Political-Economy Perspective

Daniel P. Aldrich<sup>1</sup>

The 11 March 2011 earthquake off Japan's coast registered a 9.0 on the Richter scale and literally altered the earth's spin, creating a measurable bulge in the continental plates on the opposite site of the world. But the temblor off Japan's coast also triggered a series of events which ended in an ongoing nuclear crisis involving both partial and full fuel meltdowns at the Fukushima Dai-ichi reactor complex, roughly 140 miles northeast of Tokyo. Authorities have rated the event as a 7 ("major accident") on the International Nuclear and Radiological Event Scale (INES). Only the 1986 Chernobyl core meltdown has received a similar INES rating, a fact that has raised anxiety levels both in Japan and abroad, changing the long-term energy plans for some nations and reinforcing concerns for anti-nuclear groups.<sup>2</sup> While

<sup>1</sup> Daniel P. Aldrich is Associate Professor of political science at Purdue University and the author of *SITE FIGHTS* (Cornell University Press 2008 and 2010) and *BUILDING RESILIENCE* (forthcoming from the University of Chicago Press) along with more than 20 peer reviewed articles and book chapters. He is a member of the Mansfield US-Japan Network for the Future, an American Association for the Advancement of Science (AAAS) Fellow, and is currently a Research Fellow at the East West Center. Arjen Boin, Rob Olshansky, and Louise Comfort provided helpful suggestions. He invites social scientists interested in this topic to join his nascent APSA working group on Disasters and Crises by emailing him at [daniel.aldrich@gmail.com](mailto:daniel.aldrich@gmail.com).  
<sup>2</sup> Germany and Switzerland, for example, have backed away from plans for nuclear power expansions with anti-nuclear rallies of more than 20,000 in the Swiss town of Doettingen near the Beznau reactor. These and broader concerns across nations have cast doubt on optimistic beliefs that a "nuclear renaissance" was underway across the globe in the 21st century. The problems with the vulnerabilities of the spent-

many social scientists recognize that the intensity and frequency of natural disasters have been increasing over the past two decades, few social scientists have had a chance to reflect on the relevant political and political-economic issues relevant to these catastrophes. In this brief article I will touch on four disaster-focused issues relevant to social science.

#### Glimpses of the Future: Compound Disasters and Cascading Failures

Japan's current crisis epitomizes what researchers call a "compounded disaster" - a situation which by itself may not end in wide-scale fatalities, property damage, or catastrophe, but combines with other existing vulnerabilities such as coastal or below-sea level habitation, poverty, political instability, corruption, low levels of trust, and technological failure, to create a far worse sociotechnical outcome. We have turned what some have deemed "natural disasters" into man-made (or at least man-facilitated) ones. For example, the late August 2005 crisis in New Orleans was not primarily due to Hurricane Katrina, which was only a category three storm when it made landfall on the 29th of the month.

Instead, the structural failure of the levees designed by the Army Corps of Engineers, poor responses from disaster managers at all levels, widespread poverty and institutional racism, the failure of the pumps to operate properly, and, over the long term, low levels of linking social capital in many of the flooded neighborhoods, compounded the effects of the storm. As a result, some neighbor-

fuel pools at Japan's reactors have caused some groups, such as the Institute for Policy Studies, to push U.S. regulators and nuclear operators to begin transferring spent nuclear fuel from similar pools into dry casks.

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venting the plant into the atmosphere (voluntarily through controlled releases to lower the pressure inside the reactor cores and involuntarily due to the cracks in reactor number 1), and the discharge of tens of thousands of gallons of contaminated water into the ocean.

Academics and decision makers alike must recognize that the crises in New Orleans, Haiti, and Fukushima are exemplars of the trends of interdependence and complexity that will continue into the future - rarely will communities and responders have simple, single-shot crises to handle. Instead, as Charles Perrow has underscored in his recent work *The Next Catastrophe*, developers and bureaucrats alike continue to make decisions that increase the power of disasters and magnify their effects, whether through putting our energy "eggs" in one basket, relying on just-in-time manufacturing processes, depending on single suppliers for critical goods, or placing humans in harm's way through building at or below sea level. The question that few are prepared to answer is what we can expect from crisis and disaster management officials under such complex conditions. It is easy to find failure but much harder to formulate standards under such complicated crises.<sup>4</sup>

### **The Transboundary Nature of Crisis**

As political scientists are all too aware, while governments regularly divide their personnel into functional units (such as the regional and technical bureaus within the State Department) and organizations seek to allocate resources

and responsibilities among their divisions, disasters rarely create problems that can be categorized in a single box. Rather, the disasters create transboundary problems that ripple beyond geographically-, administratively-, and politically-defined boundaries and therefore beyond the ability of any single firm, government bureau or NGO to manage them independently. Following the 2011 quake in Japan, this was perhaps most obvious in the field of automobile manufacturing, an area in which the widely adopted and economically efficient practice of "just in time production" has created deep vulnerabilities. While the state of Indiana, home to Purdue University and a number of production facilities, sits far from the epicenter of the quake, and few of its local residents imagine themselves as dependent on the events abroad, car and auto part manufacturers cut all overtime shifts and shut down car and truck lines because they lacked parts normally produced in affected areas of Japan. Honda - based in Japan - has told its American distributors that car production levels will not return to pre-quake levels until August or September of this year.

More broadly, recent disasters such as the crisis in Fukushima rarely affect a single neighborhood or city, and such events push decision makers to think beyond their own local jurisdictions. While few residents of the coastal city of Ohkuma in Fukushima Prefecture were directly affected by either the quake or the tsunami, the entire village had to be evacuated when it became clear that the nuclear power plants in their backyard were undergoing meltdown. (The government has offered a time table of at least 9 months before residents will be allowed back to their homes and properties; many observers believe this to be optimistic.) These internally displaced people have joined hundreds of thousands of others (some of whom lost their houses to the tsunami) who are being placed into temporary shelters, school auditoriums, and civic halls throughout Japan.

Megacatastrophes force local governments, central governments, and even neighboring states to overcome collective-action problems and work together to solve pressing problems. Nations may have created elaborate precautions for potential crises in their own nations, but few are truly prepared for wide-scale, cross-national problems. South Korea and China have watched uneasily as plumes of radioactivity and water-borne contamination have been detected following the meltdowns at Fukushima; few countries have thought through the consequences of their neighbors' problems. The European Union, for example, is only now taking initial steps to manage these boundary-crossing phenomena, whether the spread of BSE (mad cow disease), acts of terrorism, or outbreaks of pandemics (see, for example, the 2008 article by Boin and Rhinard in *International Studies Review* on this topic). Japan's disaster has created simultaneous wicked problems for the Japanese government, which must grapple with radioactive contamination, tens of thousands of casualties, hundreds of thousands of evacuees, and the crippling of critical infrastructure necessary for the delivery of food, water, medicine, and other critical supplies.

Finally, disaster mitigation and recovery are events that almost never fall within the timeframe of a single executive administration at any level of administration. Instead, it may take several elections for recovery to be obvious, and bureaucrats and local administrators will have to push for budgetary allowances and supplies long after media attention has dissipated (though politicians no doubt will claim credit within weeks, if not days, for any signs of a rebound).

### **Increased tensions and politicization in disaster and crisis management**

Despite strong connections between members of the Iron Triangle of nuclear power in Japan (made up of the private power utilities such as TEPCO, bureau-

<sup>4</sup> I have already commented publicly in the *New York Times* and on *MSNBC* on the various evacuation plans drawn up by both U.S. and foreign disaster-management officials who seek to turn the terrors of the unknown into acceptable risks both for the field of private insurance and for regulators and residents who seek reassurance about worst-case scenarios. Lee Clarke has rightly labeled these plans "fantasy documents" and social scientists should continue to push the professionals involved in planning to justify their output.

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crats within the Ministry of Economy, Trade, and Industry (formerly MITI), and powerful politicians such as the energy *zoku* (tribe) members), politicians and firms have rushed to frame events and push responsibility for incompetence or mishandling onto others. TEPCO recently blamed its computer analyses for underreporting levels of radioactivity around the stricken reactors; as a result, executives argued, they were unprepared for the scope of the problem and have been slow to release information. The press blamed TEPCO's managers for initially hesitating to use salt water to cool the overheated reactors for fear of damaging the long-term, high-capital investments in the facilities (as salt water essentially ruins the reactor components) and for deliberately withholding information from the public. Prime Minister Naoto Kan earlier argued that there should be no limit to the damages that TEPCO has to pay, as he believes the firm discounted earlier questions about the possibility of a tsunami overtopping existing seawalls and admitted to falsifying safety records in the 1990s. And many observers have argued that the Japanese government agencies responsible for promoting nuclear power simultaneously are supposed to regulate it, a conflict of interest that North Americans should be all too aware of following the BP oil disaster (when the previously obscure U.S. Minerals Management Service made front page headlines and was soon transformed into the Bureau of Ocean Energy Management, Regulation and Enforcement).

The "blame game" following disasters is not an activity played solely by the Japanese. Following Hurricane Katrina in New Orleans, the targets for criticism were many: Michael Brown and the other managers of the Federal Emergency Management Agency (FEMA), New Orleans Mayor C. Ray Nagin, Louisiana Governor Kathleen Blanco, the New Orleans Police Department, and so on. Boin, 't Hart, and McConnell's 2008 book *Governing after Crisis* un-

derscores the patterns in responses from regulators, bureaucrats, and elected politicians around the world as they sought to handle and spin crises. There, the authors argued that the type of "shadow" cast by the crisis (whether incomprehensible, mismanaged, or agenda-setting) interacts with the norms of decision makers tasked with post-crisis reform (with approaches including just world, garbage can, and perverse effects) to set the stage for post-crisis politics.<sup>5</sup> Fukushima should remind us of the broader post-disaster patterns that can be found even in crises of this magnitude.

### **Opportunities and agendas for social**

Tragedies such as the ongoing crisis at Fukushima reveal inherent weaknesses in administrative, social, and governmental systems and underscore the existing vulnerabilities in demographic communities. They also set up tragic "natural experiments" for social scientists interested in a broad variety of themes, ranging from the effects of policy intervention to the role of economic, demographic, and social capital factors in recovery. In the field of nuclear power, social scientists such as Etel Solingen have already undertaken creative analyses of issues such as the structure of the nuclear industry while Matthew Fuhrmann and others have looked at why some countries adopt nuclear power and others do not (and Fuhrmann has quantitatively shown that post-disaster, countries are less likely to adopt nuclear technology, throwing some cold water on those who optimistically envision a "nuclear renaissance" arising after Fukushima). Scholars such as Jacques Hymans have tackled the question of why some nations "go nuclear" while others remain committed solely to peaceful uses of the atom (Hyman has

<sup>5</sup> For a fuller review of their volume and of other recent works on disasters, see Daniel P. Aldrich, "Between Market and State: Directions in Social Science Research on Disaster" in *Perspectives on Politics* April 2011.

an ongoing research project focused on the stable configuration of veto players in the domestic nuclear industry that has prevented Japan from adapting civilian technology to military use). Betsy Sinclair, Thad E. Hall, and Michael Alvarez have demonstrated the ways in which damage from post-Katrina flooding in New Orleans altered participation levels among survivors in and outside the city.

All of these researchers have connected our interests in political power, civic participation, formal and informal institutions, and other cutting-edge political science themes to high-salience issues of crises and nuclear power. More broadly, Peter Haas has long pushed social scientists to develop usable knowledge - knowledge that is tractable, credible, and legitimate, and this disaster and the inevitable crises provides us with a chance to build just that. The events at Fukushima should drive all of us to think through ways in which our knowledge of politics can contribute to ongoing dialogues about state - civilian interaction, international cooperation, regulatory frameworks, and benefits and costs of nuclear power.



## FEATURE ESSAY

### Earthquake Mortality and Damage

Thomas Plümper, Professor of Government, University of Essex

Eric Neumayer, Professor of Environment and Development, London School of Economics

Since the turn of the century, at least four earthquakes have occurred that have entered the collective disaster memory: the March 2011 quake-cum-tsunami in Japan that overtook Hurricane Katrina as the costliest natural disaster ever, the February 2010 quake in Chile for its strength of 8.8 on the Richter scale (and possibly the absence of many fatalities), the December 2004 quake-cum-tsunami in Indonesia (for it was the first major tsunami of the media age and the high number of fatalities), and the January 2010 quake in Haiti (for the vast devastation of a major city and the very large number of fatalities). For lack of extensive film coverage, a fifth disaster is often ignored but it certainly qualifies as major disaster: the May 2008 Sichuan earthquake, which killed almost 90,000 people.

Most earthquakes go largely unnoticed, however. We know of them because we have installed sensitive instruments that capture the tremor emanating from earthquakes and other activity (e.g., the test of a nuclear bomb). These instruments report the occurrence of approximately 50 earthquakes per day, most of them far too weak to cause noticeable damage on the earth's surface. However, about 250 earthquakes per year reach a magnitude of 6.0 or above on the Richter scale. These earthquakes are dangerous if they take place close to inhabited areas or if they trigger a tsunami. They may kill human beings by making buildings collapse, by triggering landslides and destroying dams, by bursting gas pipes and oil tanks and

thus causing fire etc. On average, about 10 earthquakes per year take place that have fatalities, and even more cause significant economic damage. What explains the large variation in disaster fatality and disaster loss?

A naïve, apolitical view looks for geological and simple economic determinants. Such a view is correct in that these determinants do matter, but

flawed in that they overlook the political economy behind preventing (or failing to prevent) quake mortality and loss. First, and most obvious, the strength of an earthquake matters. An earthquake of magnitude 8.0 unleashes 32 times the energy of an earthquake of magnitude 7.0, 1024 times the energy of an earthquake of magnitude 6.0 and 32,768 times the energy of an earthquake of magnitude 5.0 on the Richter scale. The latter, a magnitude 5.0 quake, dispenses roughly the same amount of energy as the Hiroshima bomb. The March 2011 Tōhoku earthquake off the shore of Sendai in North-East Japan thus unleashed almost 35,000 times the energy of the Hiroshima bomb.

Second, the strength of an earthquake causes more damage if the quake is located directly under the earth's

surface. Accordingly, relatively minor quakes can cause significant damage if their focal depth is low. For example, the February 2011 Christchurch quake struck only 5 kilometers below the surface and though the quake had a magnitude of only 6.3 many buildings collapsed and 181 people died. Similarly, the May 2011 earthquake in the Spanish city of Lorca had a magnitude of only

5.1. Most quakes of this magnitude are hardly felt, but this particular quake had an extremely shallow focal depth of only 1.0 kilometer and thus killed nine people and caused damage estimated at 100 million US dollars. In contrast, the Chilean earthquake of 2010 had a magnitude of 8.8 but a focal depth of 35 kilometers. It killed 562 people while the economic

damage has been estimated to lie between 15 and 30 billion US dollars.

Third, the location of an earthquake determines the population density and wealth concentration above the quake and along the fault line. Everything else equal, an earthquake kills more people and causes more economic damage if the ground above and around its epicenter is more densely populated and has more valuable buildings standing on it. Such a high population density in combination with a shallow depth and considerable quake strength seem to be the main determinants of relatively high mortality rates of typical quakes in China.

Fourth, there is also general agreement that a higher per capita income of the region affected by the earthquake

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directly reduces the mortality rates but increases the economic damage. In relatively wealthy regions, the buildings and infrastructures tend to be better built and thus better suited to withstand the forces of the earthquake. As a consequence, the share of buildings collapsing is smaller in wealthier regions. However, the total value of the destroyed buildings is often considerably higher, simply because of the much larger concentration of physical wealth. Thus, the earthquakes that killed the most people without exception occurred in relatively poor and economically underdeveloped regions. The earthquakes in Tangshan (China 1976), the quake that triggered the tsunami in the Indian Ocean (mainly Indonesia 2004), the Haiti quake (2010), and the quake in Sichuan (a major agricultural province in China 2008) were the four deadliest earthquakes after 1950. Three of the four costliest earthquakes, on the other hand, took place in Sendai (Japan 2011), Kobe (Japan 1995), and Northridge (USA 1994), with only one situated in the developing world, the quake in Sichuan (China 2008).

This naïve, apolitical view ignores the fact that while no government can prevent an earthquake, governments could in principle reduce quake mortality to almost zero and they could certainly undertake measures to drastically reduce the economic toll from quakes. Before exploring why some governments blatantly fail to achieve such reductions in mortality and loss, we briefly discuss why private individuals do not prevent large-scale mortality and loss either.

The basic incentives for private individuals (as well as governments) to prevent earthquake mortality and damage seem clear and easy to understand: earthquakes can kill and they can destroy the most valuable property. Private individuals can refrain from settling in areas close to a high-risk fault line or they can construct buildings in a way as to minimize the probability that the buildings collapse when an earthquake

strikes. Neither strategy is particularly popular, however. High-risk areas often provide large economic and amenity values to those settling or operating there. The Pacific coast in North America is an economically attractive area for trade and settlement, yet virtually all land that perimeters the Pacific sits on a ring of fire: one of the seismically most active parts of the earth. The second strategy is costly and thus unpopular, too. Earthquake-proof constructions significantly increase building costs. Moreover, it is difficult for private individuals to verify the quality of the building materials and of the construction process with a view to ascertain whether the construction is quake-proof, resulting in a market for lemons due to information asymmetry between buyers and sellers of allegedly earthquake-proof buildings. Mobility worsens the situation. For example, Americans – more so than, say, Europeans – live in houses they did not build for themselves. While it is possible (though costly) to supervise the construction process to guarantee earthquake-proof construction, it is impossible to verify that a finished building has been built to highest construction standards.

Still, in comparison to the opportunity costs of not settling in earthquake-prone areas, the costs of earthquake-proof construction appears minor so that most investors would face strong incentives to make this investment if they knew with certainty that an earthquake would strike their specific location within the foreseeable future. But they do not. The theory of plate tectonics, developed in the early 20th century by Alfred Wegener and others, provides a good understanding of the forces of nature that cause earthquakes. This theory of plate tectonics helps us distinguish between high- and low-risk areas and allows us to come up with some rough understanding of the propensity of certain areas to experience major earthquakes. Unfortunately, however, geologists and other natural scientists remain unable to predict the timing, the exact strength or

exact location of earthquakes.

This severe lack of predictability provides an incentive for investors to abstain from making buildings fully earthquake-proof. Decision-psychological experiments have shown that individuals often ignore even potentially large impacts that come with very small probability, unknown size and unknown timing. In many cases, private investors prefer to under-invest in earthquake-proof construction and rather purchase insurance that protects them against the economic losses of a disaster or simply ignore the low-probability high-damage event.

Governments could in principle overcome the information asymmetry problems and the myopic behavior that private individuals face. By implementing and enforcing strict construction regulation standards, they can render private buildings quake-proof. But governments not only influence disaster mortality and loss indirectly by influencing the decision-making of private investors via the setting and enforcing of standards, they also influence the destruction caused by earthquakes directly, as investors. Many buildings and the vast majority of a country's infrastructure such as roads, ports, airports, power lines etc. are built for public ownership, in full or in part. Governments can directly influence the quality of these constructions.

Unfortunately, governments face very similar incentives as their citizens to under-invest in disaster-proofing public buildings and infrastructures. Since earthquake-proofness is costly and has – with the possible exception of prestige constructions like the Bay Bridge connecting San Francisco and Oakland – typically no immediate effect on political support, governments are better off in the short run if they propel resources to projects which promise to increase short-term political support. In other words, governments are confronted with a time-inconsistency problem in which they may perfectly know that

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a certain amount of long-term investments in disaster-proofness are in the public interest, but the short-term incentive not to invest in projects with uncertain long-term and negative short-term payoffs may dominate the decision. This incentive to neglect earthquake hazards extends beyond governments' investment decisions. Governments may also abstain from implementing or, if they do so, from enforcing earthquake-proof construction regulation. Citizens who would opt against earthquake-proofness in the absence of regulation are not very likely to support a government that coerces them to adhere to strict construction regulation.

Yet, some governments appear to invest much more heavily in disaster-proofing public buildings and infrastructure and in passing and enforcing strict building codes than others. In two papers we discuss how variation in the political incentive structure determines the extent to which governments proactively seek to prevent earthquake fatality and damage (Keefer et al. 2011; Plümper et al. 2011). We argue that a strong influence on these incentives stems from the likelihood with which a disaster strikes and its probable magnitude. Such earthquake propensity varies largely across countries, as already mentioned in our brief review of the geology of earthquake prediction. This

propensity can be approximately known by governments either via receiving expert advice from geologists or simply by inference from a country's past history of disaster events. A high earthquake propensity raises the political costs to governments of under-investing in disaster prevention and mitigation. In turn, a low earthquake propensity raises the relative political costs of strict and strictly enforced construction standards as more voters find these measures unnecessary. As a consequence, a quake of the same magnitude will cause many more fatalities and much more damage in low-propensity Spain, where few policy makers have given even a thought to earthquakes, than in high-propensity Japan, where most infrastructure and buildings are quake-proof.

However, the effect of earthquake propensity on governments' willingness to implement and enforce tight construction standards is conditioned by economic opportunity cost and political institutions. Poor countries often have other more pressing needs on the top of their priority agenda, such that governments in rich countries react more strongly to the incentives stemming from a high quake propensity than governments in poor countries. Governments in autocracies are mainly concerned with the well-being of a small and rich ruling elite that can either well look after itself and

usually lives in buildings that can withstand the tremor unleashed by tectonic plates or can be compensated for any damage experienced via private transfers. Democratic governments need to be more accountable to a wider section of the population and thus have a stronger incentive to provide public goods. They will thus react more strongly to higher quake propensity. In addition, governments' ability and willingness to fight corruption will condition the effect of quake propensity on mortality and damage. In corrupt countries, strict construction standards may merely represent an additional source of income for agencies that ought to enforce these standards, but allow private investors to "buy" their way out of having to obey these standards. Our data analyses provide evidence backing these predictions and thus support a political-economic rather than naïve and apolitical theory of quake mortality and damage.

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## WHAT TO READ

### What to Read on Natural Disasters: Some Insights from the Literature on Natural Resources

David G. Victor, Director, Laboratory on International Law and Regulation, University of California, San Diego

This issue of the *Political Economist* is devoted to the political economy of natural disasters. If the “what to read” recommendations focus solely on natural disasters, however, the list will be short or nonexistent; if they fully cover related topics such as energy, climate change, and natural resources, then the list becomes sprawling. So I have struck a balance. I have suggested some ways that the political economy literature on natural resources can help triangulate some of the relevant issues for the study of natural disasters. I’ll focus on energy resources, especially, but bring in some other activities such as hard rock mining and coffee growing, since they help reveal different ways that resources and politics interact.

#### **The Politics of Resource Extraction**

The most vibrant literature on natural resources concerns the so-called “resource curse.” Many of the countries that extract the world’s most valuable natural resources, notably oil, tend to do the worst economically. That point has been known for a long time, and a study by Sachs and Warner (1995) played a pivotal role in first nailing down some evidence. Economists have generally focused on the macroeconomic effects of dependence on resource exporters—notably the harmful effects on other exports due to appreciation of the local currency (“Dutch disease”) and dependence on income from commodities whose prices are volatile.

These economic problems can be hard for policy makers to manage, but the good news is that more recent statistical work suggests that, while there are many nuances that link resource exports to economic development still to be explored, the results generally aren’t as harmful as originally thought (see Wicke and Bulte, 2009, for a review). However, the really bad news in natural resource extraction is the effect of natural resource rents on

politics. The literature on politics has exploded in the last decade, but the best starting point is still Michael Ross’s (2001) survey of the statistical evidence for the effects of oil (and other resources) on democracy. He finds that natural resources are generally bad for democrats across the developing world. A new book updates the analysis and looks more broadly at other parts of the curse, such as the effect of oil revenues on the rights of women (Ross, in press).

The statistical debate that links oil to political outcomes is far from settled. Tsui (2010) has built a data set with insider industry information about oil discoveries, which he uses as an instrumental variable. Big oil discoveries, he finds, have a long-term, negative effect on democratization. Such results, like Ross’s, suggest that dependence on oil exports has a durable and harmful effect on political institutions. A clever new paper by Kris Ramsay introduces yet another data set that includes natural disasters as an instrumental variable. Disasters, Ramsay argues, can pull oil off the market and thus lift prices for all exporters—even those geographically remote from the disaster. Because those disasters are unrelated to a petrostate’s political institutions they are a useful way to cut through the endogeneity that has plagued most statistical work on the oil curse. Ramsay shows that the biggest and most negative effects of oil on political freedom come from revenue booms, not simply the discovery of oil. Dube and Vargas have used exogenous shocks in the price of coffee to explore how that resource (along with oil) affects violence in Colombia (Dube and Vargas, 2007). Yet another new statistical study—by Haber and Menaldo—suggests that most of the evidence for a resource curse may be completely wrong. Nearly all statistical studies on the resource curse have deployed data sets that begin in the late

1960s—a period too recent to disentangle whether oil causes authoritarianism or perhaps the causal arrows are reversed. Autocrats, by choice, may hunt for oil because they don’t have many other options. Looking back to 1800, which allows them to disentangle the relationship between resources and political institutions more fully, Haber and Menaldo find that oil doesn’t have any negative effect on democracy and perhaps even offers a benefit.

Reading the resource curse literature can make your brain hurt because the causal wiring is extremely complex, hotly contested, and yet crucial to get right. That’s why I am also a big fan of Thad Dunning’s recent book that unpacks the causal logic linking resource extraction to political effects (Dunning, 2008). He combines formal modeling with statistical work on a large data set and also five in-depth case studies (mainly in Latin America). His analysis concentrates on oil but also includes other resources such as copper, tin and silver. Other new studies that use rich case analysis to focus on the causal logic include the recent book by Pauline Jones Luong and Erika Weinthal (2010). Their analysis, the result of a long and productive collaboration, is probably the best analysis of the interaction between the oil and fiscal regimes of the former Soviet states. Oil, they say, isn’t the curse. Rather, it is the decisions by governments about who owns and controls the companies that extract the oil that really matter. I would be happy if the new spate of work in this area encouraged all of us to drop the emotive term “curse,” for it obscures more than it reveals. What really matters are the cause-and-effect relationships and the mediating effects of institutions.

The richest vein of political science research has focused on how oil affects political institutions—notably

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democracy. Resources can have other effects as well. Inspired by Paul Collier and Anke Hoeffler, a few scholars have added oil and natural resources to the models they use to study civil war. A recent piece in this vein of research is Collier et al (2004), which shows that a decline in commodity prices helps shorten civil war—a finding that is consistent with the idea that war is a business whose profitability declines when the spoils (oil rents) evaporate. Their work also suggests that of late civil wars have become harder to stop—perhaps because global markets make it easier to monetize looted commodities such as oil and also spend the money on weapons and mercenaries. The “war as business” approach sees conflict as the result of a contest over rents. Jeremy Weinstein’s (2006) careful research on civil war shows that war is lot more likely when rebels can seize revenues from mining of natural resources to finance their exploits. A new paper by Jeff Colgan (2010) turns that analysis around and shows that revolutionary petrostates are particularly prone to use their oil revenues to fund inter-state war. Being a petrostate generates the cash for their exploits, and being a revolutionary makes them hungry for risk and expansion.

Other studies, notably by Benjamin Smith (2007), have probed the effects of oil on the durability of political regimes. He finds that oil exports make developing countries more stable because, except in a few cases, oil revenues help reinforce state institutions. That finding is rooted in statistical analysis of panel data, but the really interesting part of the study is his detailed comparisons of Iran and Indonesia. Similar in many respects, these two cases have wildly different outcomes because Iran’s rulers built institutions that relied on a narrow coalition of supporters and oil revenues to keep their power, which made them fragile; Indonesia’s state institutions, by contrast, relied on broader political support and thus when oil revenues were available rulers could channel them in ways that reinforced stability. Oil isn’t the only source of

revenue for states that can have these effects. Indeed, states have other sources of nontax revenue, such as foreign aid, that rulers can use to stabilize their governments and avoid politically dangerous policies such as raising taxes on local elites (Morrison, 2009).

Pretty much every study that looks at the array of natural resources finds the strongest evidence linking resources to political outcomes for the case of oil. That’s because oil is so valuable—especially when world oil prices are so much higher than the cost of extracting the stuff. Moreover, the money flows from a “point source,” which makes it particularly ripe for grabbing. Nonetheless, there have been some very interesting studies exploring resources beyond oil. Christine Jojarth (2009) has probed the international diamond market, which is supplied by raw gems from two types of mines. One is capital-intensive and requires long time horizons; the other is a simple, low-cost grazing of riverbeds where the diamonds are cut loose by erosion. Botswana’s diamonds are of the former variety and showcase the positive effects of natural resource wealth whereas the “blood diamonds” of West Africa are all of the latter variety. She also shows that the capital-intensive diamond producers have had a strong incentive to create labeling schemes that keep the blood diamonds out of the lucrative gem market while prizing their own product.

There’s a big opportunity to look at other resources still—such as coal or even renewable energy. An intriguing new paper by two Italian economists suggests that the Italian mafia has been able to control the licensing process for new wind turbines. They show that the windiest Italian provinces tend to be associated with high levels of violence. Their interpretation is that windiness is an asset because Italy’s renewable energy quotas have been among the most lucrative in the world; by controlling which wind turbines get licenses the mafia, in effect, controls the rents from green energy

credits. I don’t know if that result will hold when it is scrutinized more closely, and Italy is one of the few countries that has lucrative renewable energy schemes yet institutions that are prone to rentierism of this type.

My own work in this area has looked at the link between the politics of resource extraction and the management and business strategy of the oil companies that actually do the extractive work (Victor et al., eds in press). With Mark Thurber and David Hults and a team of collaborators we look at 15 of the world’s most important national oil companies (NOCs). They vary massively in their performance—from Kuwait and Mexico among the worst to Saudi Arabia, Brazil and Norway among the best. Good performance by the NOC nearly always stems from a thick layer of insulation between the country’s system of government and the business decisions of NOC leaders. Most of the research in this area focuses on fiscal management, but we show that governments impose harm on their NOCs in many other ways—such as through personnel and procurement—that make it hard for NOC managers to reward economic efficiency. Much of the research on the “resource curse” has focused on how the revenues from oil affect political institutions; our work suggests that the NOCs and their mechanisms for corporate governance may be equally important.

Finally, it is worth noting that many of the questions of greatest interest for scholars are also essential for policy makers. Those include the best ways to design contracts that govern (and tax) the extraction of natural resources or offshore funds that can help lessen the effects of “Dutch disease” while also making it hard for politicians to grab rents. The best of this policy-oriented work is a book by Humphreys et al. (eds, 2007), which includes a good overview of the social science evidence for resource curses and lots of practical nuts and bolts for governments to fix these problems. The

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Revenue Watch Institute (RWI) funded that study; set up by George Soros, RWI has backed a variety of mechanisms for making oil revenues more transparent and governments more accountable for their spending. A new frontier for scholars will be to look closely at when and how these policy mechanisms actually work.

## **The Politics of Investment**

For political economists, what makes energy an interesting subject for analysis isn't just the sheer size of the revenues from extraction but also the need for investment. The business of producing oil and gas has, in general, become more capital intensive as producers have shifted from the "easy" oil to resources that are deeper and more complex. The rising role for natural gas has also raised the capital intensity of the energy extraction business—gas is usually more capital intensive than the fuels it replaces, such as oil and especially coal.

The really big needs for investment come when raw energy is transformed into useful forms—especially electricity. Power plants are extremely expensive, and the costlier the choice of technology the more sensitive investors become to the regime that governs the return on these assets. The International Energy Agency, which develops the most widely cited long-term world energy models, typically predicts that about half of all investment in the energy sector worldwide over the next few decades will go into electric power (IEA, 2010). In nearly every country, the electric industry is dominated by state companies that often face severe capital constraints, which is why the electric power industry goes through waves of efforts to attract private investment.

In the early 1970s, in the wake of the many expropriations of assets owned by foreign oil companies, Raymond Vernon coined the term "obsolescing bargain" to describe the fundamental problem at stake. For an investor who commits large, fixed capital the risk of expropriation is severe once the concrete has

cured and the asset is fixed to the ground. Original bargains struck to entice the investor become obsolete when the facts change. Political economists have been probing these issues ever since, and I find the obsolescing bargain concept remains a useful way to think about the problem (and politics) of investment.

Among the studies worth reading in some detail is Erik Woodhouse's (2006) analysis of three dozen electric power plants in 14 countries over the 1990s. Investors, knowing Vernon's insight, had devised a myriad of ways to share the risks with host governments and flooded into the market for independent power plants (IPPs). Woodhouse shows that many of the institutional fixes that were supposed to tame expropriators—such as offshore arbitration, which is now a standard feature in bilateral investment treaties (BITs) and contracts with front-loaded payment systems—haven't worked that well. I also commend a study by Henisz et al (2005) that explores why market-oriented reforms in electricity and other infrastructure industry—which have gone hand in hand with private investment—have spread worldwide.

At its core, the problem of private investment is one of contracting. Using that as a starting point, Hogan and Sturzenegger (eds, 2010) have collected a terrific set of papers that look at the theory and practice of investment contracting and the effects of contract structures on the risks of expropriation. A chapter by Mike Tomz and Mark Wright is particularly notable for exploring the different methods for theft—default (which affects debt) and expropriation (which concerns direct investment). Theft occurs in cycles, with defaults most likely in bad times but expropriation possible in good times and bad. They are interested in contracts of all types that affect natural resources—from long-term mining concessions to oil platforms and power plants—but I suspect that the problem of electricity will remain particularly difficult to solve because capital intensities are so high and power plants are highly visible targets for

expropriation.

For energy and natural resources these contracting issues may define the future of the industry in ways that are interesting to political economists. Where these problems can be managed, industrial activity will shift to a large role for private investors. Where they fester, states (and well-connected private actors) are likely to remain at the commanding heights of the energy industry. These questions entrain a large number of important policy issues, and there is no shortage of studies on energy policy and the emerging needs for global energy governance—many taking the form of sprawling edited books. Two of the more coherent and thoughtful efforts are Goldthau and Witte (eds., 2010) and Kalicki and Goldwyn (eds, 2006).

So much of what happens with the extraction of oil and investment in energy systems depends on historical contexts, which is why good histories are so interesting and important. No historical study in this area has been read more widely than Dan Yergin's *The Prize*; he is putting the finishing touches on an update and rethinking of how energy affects the modern world—due out this fall (Yergin, 2011). While Yergin's book is rightly the standard starting point for the history of oil, I also commend Parra's (2004) largely ignored study for it focuses more squarely on the political economy aspects of the industry.

## **The Politics of International Environmental Externalities**

Finally, the energy industry often has a large footprint on the natural environment, and scholars have increasingly turned their attention to the management of international environmental impacts. A surge of scholarship produced books and articles in the 1990s in the wake of the 1992 Rio Conference on Environment and Development. The 1990s were a period at the peak of treaty-making in this area, which is one of the most highly institutionalized realms of international

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cooperation. As the United Nations' post-Rio efforts waned, so did scholarship on international environmental topics although a few strands of particularly interesting work continues, such as Thomas Bernauer's work linking public attitudes to environmental treaty outcomes, Ron Mitchell's big database on environmental treaties, and research by a big handful of scholars such as Beth DeSombre and Oran Young on global environmental governance.

Traditionally, much of the scholarship on international environmental cooperation focused on efforts by governments to craft treaties. Governments found treaties particularly effective when the issue-areas were well-contained and the needed actions were relatively easy to specify—such as the highly successful effort to regulate the chemicals that deplete the ozone layer. But as governments have taken on topics, like climate change, that don't sit neatly in organizational boxes the institutional landscape has become a lot more complicated. Some of the more interesting recent work in this area has looked at “regime complexes” as an institutional form—that is, clusters of partially overlapping regulatory agreements. A symposium organized by Karen Alter and Sophie Meunier (2009) is the best recent survey of that thinking and draws on case studies that span trade, human rights, environment and other topics. Robert Keohane and I have applied the regime complex concept to the climate issue, using it both to build some theory about why regime complexes actually exist and to suggest for policy makers that that under the right conditions complexes may actually be a lot more effective than singular treaties like the Kyoto Protocol (Keohane and Victor, 2011). Colgan, Keohane and van de Graaf (in press) have explored similar issues for the even broader and more loosely connected institutions that manage international energy issues.

Compared with the 1990s, when scholars focused on public institutions, much of the new scholarship on inter-

national environmental issues is looking beyond the state to authority that is supplied by private institutions. One strand of this literature looks at how competition between different standards systems affects which schemes are adopted and their practical impact on the decisions of firms and consumers. For example, Jessica Green (2010) looks at how nongovernmental organizations set standards for how company's report emissions of greenhouse gases and why some companies embraced that role. Research on how private standards influence market choices has blossomed over the last decade, much of it focused on private labeling systems—for example, the Forest Stewardship Council (FSC), which beat its rivals to become the most important arbiter of whether wood products are sustainably produced. This approach only works where customers are engaged and willing to pay the extra cost of greenery, and thus an alternative strand of research on private standards, probed most recently in a terrific new book by Tim Buthe and Walter Mattli (2011), looks at what happens when the companies themselves take over standard-setting. Using case studies and well-crafted surveys of firms in the financial industry and in industries such as chemicals where product standards have a big impact on markets, Buthe and Mattli show that private standards have come to dominate huge areas of international markets. Relying on comparisons between the US and Europe, they show that when national industries are well-organized they can have a bit impact on these international standards and use them strategically to shape the size and access to markets.

All of this is most likely to intersect with the theme of this newsletter—natural disasters—when it comes to climate change. Much of the science around climate suggests that, as emissions continue to rise, the odds of natural disasters such as floods, extreme storms, and droughts will also climb. I have a new book that looks at the history of institution build-

ing on climate change and shows why, despite twenty years of diplomacy, the world hasn't made much progress (Victor, 2011). One reason is that diplomats focused too much on the lessons from the earlier, easy cases of international environmental cooperation—such as depletion of the ozone layer—and have tried to solve the climate problem with massive global diplomacy such as on display at the 2009 Copenhagen conference. Alternative strategies—such as using market forces and private standards as well as (I suggest) working in smaller groups of important countries rather than global institutions—are more likely to work. These are age-old questions for political scientists who have long been interested in choices of institutional design, such as whether to pursue multilateralism in small or large numbers. Meanwhile, the gases that cause warming continue to build. The next wave of this research, just now in its infancy, will be looking at how international institutions affect the ability of countries to adapt and manage the effects of a changing climate.

Indeed, an interesting area of intersection between the social and natural sciences is on the effects of climate on economic growth and human institutions—a topic that has attracted scholarship for at least a century. Jared Diamond's recent work (2004) points to climatic stress as one of several main causes of civilizational collapse. A lot depends on how climate affects agriculture since that is humanity's most climate-sensitive activity. And agriculture, in turn, has had a large historical effect on the rise of democratic and authoritarian regimes. A draft paper by Haber and Menaldo (2010)—looking at the effect of rainfall patterns on agriculture and thus democratization—is suggestive of a wave of research that might begin on these themes. And with changing climate, the new stresses on human institutions might have measurable effects on politics in the decades to come.

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## **Triangulation towards some insights on natural disasters**

The literatures on natural resources don't automatically lead to theories about the politics of natural disasters. But they do help point in some interesting directions.

First is methodological. Natural disasters, like many other exogenous events, are a shock that can be used to explore how political systems respond in the face of stress or a sudden surge in riches that occurs when disasters drive up the price of commodities. A very few studies have done this already, but these disasters probably offer many more opportunities for scholars to uncover how political systems behave.

Second, and most important, is causation. Natural disasters, because they generate economic shocks, could cause an array of changes in political systems and policy outcomes. However, the causal mechanisms may be quite different from the economic shocks that the "resource curse" scholarship has explored. In some ways they are similar because natural disasters can produce big shifts in national income—a surge in rents or huge new demands on public budgets—that are similar to the cycles of commodity prices and rents that have been at the center of "resource curse" scholarship. Huge rebuilding programs that follow disasters are likely to display the rentierism around allocation of public contracts that are often a central part of the resource curse. In other ways disasters are different. One difference is the possibility that natural disasters are visible ways for politics to conclude that their governments are performing poorly and punish the politicians that voters think are responsible (e.g., Malhotra and Kuo, 2008). The shock of disaster can also reveal distasteful political behavior that was previously hidden (e.g., Aldrich, 2011). Natural disasters can magnify political forces that are already latent—evident today as Germany and a few other countries announce bold plans to move away from nuclear power following the Fukushima nuclear crisis.

(At the same time, Fukushima hasn't had much impact in countries where governing systems aren't much worried about nuclear safety, such as in China, which is already building the largest number of new nuclear reactors.) Foreign intervention may become more likely after disasters, especially when connected to aid. And the roles of natural disasters as an opportunity or barrier for civil war is also a topic worthy of exploration, although the causal mechanisms are likely to be quite different from the literature that has looked at links between resources and conflict.

Third is policy and risk management. Natural disasters are a fact of life, but their economic, political, and social impacts depend in part on how people anticipate and respond. One response is infrastructure, such as sea walls, weather forecasting systems, tsunami warning devices and such. The variation in how different societies make these risk calculations and devote resources to managing natural disasters is worthy of analysis, especially as climate change amplifies the risks. An interesting line of research might compare the relative roles of "hardware" such as infrastructure versus the "software" of social capital in explaining both resilience in the face of natural disasters and the political effects of those events.

A specific literature on natural disasters remains only in its early stages, but the existing political economy scholarship on energy, natural resources, and environmental externalities provides many useful starting points for scholars to begin exploring the politics of natural disasters more directly in the years ahead.

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## CREATION OF FIONA MCGILLIVRAY AWARD

Following our colleague Fiona McGillivray's passing in 2008, the Executive Council discussed endowing a best young scholar prize in Fiona's name. Unfortunately, raising the kind of money necessary to create an endowment large enough to sustain such an award has proven impossible in the current economic climate. At the time of Fiona's death, support was also voiced for renaming the section's best conference paper award for Fiona. This option now appears to be the best feasible course of action to honor Fiona's memory.

Renaming the award requires an amendment to the section bylaws. The standard procedure is for the Executive Council to propose an amendment which is voted on at the annual section meeting. The following amendment received the unanimous approval of the Executive Council during correspondence concluded on November 14, and is hereby proposed for ratification to the section membership:

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Whereas our colleague, Professor Fiona McGillivray, died tragically at the age of 40, of complications from primary pulmonary hypertension; Whereas Professor McGillivray made substantial theoretical and empirical contributions to the study of political economy; Whereas Professor McGillivray's book, *Privileging Industry: The Comparative Politics of Trade and Industrial Policy*, won the Riker Award of the American Political Science Association's Political Economy Section (hereinafter "the Section"); and Whereas, despite her accomplishments, we can and will never know the full scope of Professor McGillivray's scholarly potential because of her premature passing;

Resolved, that the Section's award for best paper presented on a political economy panel at the previous year's APSA meeting be renamed the Fiona McGillivray Award; and that in furtherance of this, the fourth paragraph of Part VIII of the Section's bylaws be amended to read as follows:

"The third committee will consider and, if appropriate, select a paper for the Section's Fiona McGillivray Award, given annually to the best paper presented on a political economy panel at the previous year's APSA meeting. Nominations will be solicited from the chairs and discussants of political economy panels at the APSA meeting and should be directed to all three members of the award committee. The Award will be presented at the Section's annual meeting."

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