IRIS Graduate Student Summer Fieldwork Award Narrative Report

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Governing through Boom and Bust: How did a series of major oil discoveries affect local governance and economic outcomes in Brazil?

1. Study Background

Researchers have long observed a negative relationship between countries' dependence on natural resources and their economic or institutional performance. Mechanisms underlying this "resource curse" include Dutch Disease (wherein resource exports distort exchange rates and provoke deindustrialization), rent-seeking, and increased likelihood of armed conflict. Natural resources may also cause problems due to their unpredictability and volatility. Large resource discoveries may provoke euphoria and inflated expectations that ultimately do not align with reality. Dependence on volatile resource revenues may make it difficult to plan long-term investments or budgets.

My research focuses on quantifying these dynamics at the subnational level in Brazil. Brazil is governed under a federal system, in which municipalities exercise significant control over budgets and policy. Revenues from off-shore oil production are distributed as "royalties" to municipalities that are geographically aligned with the off-shore oil fields, creating a natural experiment in which I can measure the effects of exogenous resource windfalls on municipal governments and economies.

Beginning in 2007, Petrobras, Brazil's national oil company, began announcing a series of major off-shore oil discoveries along the country's southeastern coast. The discoveries provoked a wave of euphoria and were widely seen as a "passport to future prosperity." Nonetheless, global economic shifts, declines in oil prices, a corruption crisis within Petrobras, and recession in Brazil caused the realization of these oil discoveries to be delayed and diminished below initial expectations. This context allows me to separately identify three potential mechanisms underlying the resource curse: 1) the actual receipt of royalties, which could provoke wasteful spending, rent-seeking, or corruption; 2) expectations of future royalties from the off-shore discoveries, which could create problems for municipal budgets if they do not align with reality; and 3) volatility in municipal budgets introduced by dependence on unstable oil revenues. I first seek to capture whether these dynamics affected levels of debt, taxation, and spending in municipalities affected by the oil discoveries relative to unaffected municipalities. Second, I seek to measure whether inflated expectations after oil discoveries shaped local elections by increasing the incentive to hold power, and thus control oil rents. My results could inform

policymaking in countries seeking to design institutions to effectively manage natural resource wealth.

2. Exploratory Fieldwork in Rio de Janeiro, Brazil

Supported by generous funding from an IRIS Graduate Student Summer Field Research Grant, I spent 10 weeks in Rio de Janeiro, Brazil, conducting exploratory field work and data collection for this project. Rio de Janeiro was an ideal location for this work due to its central position in Brazil's oil industry. Rio's municipal governments are the primary recipients of oil revenues, and were the most affected by the newly announced off-shore discoveries. Consequently, Rio is the primary center for research and policymaking related to management of oil revenues. During my time in Brazil, I was based at the Institute of Economics at the Federal University of Rio de Janeiro, where I worked as a visiting researcher in the Energy Economics Research Group. Through this affiliation I was able to interview numerous specialists on Brazil's oil sector. I interviewed a number of academic researchers who study the sector, as well as regulators at the national oil agency and policymakers involved in distributing oil royalties to municipal governments. These interviews were important to my understanding of the complex institutional context and evolving public policies in this area.

My interviews also informed my data collection efforts. I organized secondary data sources on public finances, local elections, oil royalties, archived news reports, and formal employment in Brazil. While my work did not involve primary data collection, these administrative datasets are complex and difficult to work with without guidance from more experienced researchers. My ability to interact with these researchers as I navigated the datasets was key to my progress on the quantitative part of my study.

3. Next Steps for Study

Since returning from Brazil, I have focused on cleaning and organizing multiple datasets in order to perform my empirical analyses. I am also moving through the process of obtaining IRB approval for a portion of my study that uses restricted access data on formal employment and campaign donations to measure corruption in municipal elections. As the project progresses, I hope to be able to return to Rio to speak with local mayors and policymakers at the municipal level. This would improve my understanding of how these actors formed expectations at the time of the oil discovery announcements, and how they plan their budgets and behavior in local elections.

4. Fit with Broader Research Agenda

My dissertation will focus on the political economy of natural resource governance. I am interested in the ways in which natural resources such as oil shape the behavior of local elites, and the effects of these dynamics on the broader development process. Beyond my work on

Brazil's oil boom, I am developing another project focused on understanding the role of local politicians in influencing rates of deforestation along the Amazon frontier.

My experience conducting exploratory fieldwork in Rio de Janeiro was incredibly valuable to me on both a personal and professional level. The opportunity to interact with policymakers and immerse myself in Brazil's institutions reinforced my passion for research and my commitment to understanding Brazil in all of its complexity and challenges. I am deeply grateful to IRIS for supporting my work.