

The idea of booming oil production sounds great, at least if you put aside environmental issues. For instance, in the current presidential race, one of the candidates has touted the advantages of becoming another Saudi Arabia. But economists seem to delight in telling us why something that sounds terrific will actually come back to bite us.

In the case of an oil boom, there are actually two perverse effects that can impact a country. They're called the Dutch disease and the resource curse. The first one is the greater concern in the U.S. context, but the second may also apply to some extent.

The [Dutch disease](#) was first noticed in the case of a natural gas boom in Holland, which seemed to blight other parts of the economy. Basically, what happens is that exported product strengthens the country's currency — something Romney has touted as a benefit of more fossil fuel production. A stronger currency sounds good, but it's actually problematic. The stronger currency makes it easier for consumers to buy imports, while it also makes it harder for foreigners to buy the country's exports. The result is a decline in the manufacturing sector and other exporting sectors such as agriculture. There's now a [major debate](#) about whether Canada is suffering from the Dutch disease.

The [resource curse](#) is actually typical of developing countries and likely to apply to the U.S. to a lesser degree. Much of the profit from natural resources is just due to scarcity. Companies didn't put the oil in the ground but they profit from its inherent value. Economists call profits that come from scarcity rather than production "rents." The larger economic rents loom in the economy, the more effort is devoted to fighting over who gets them versus investing in productive activities. In addition, rents often seem to enrich oligarchs who gain undue political influence. Thus, Russia's wealth in natural resources such as gas and oil may have contributed to its political corruption and oligarchy. In the U.S., we wouldn't see anything that extreme, but we might see greater income inequality and more political influence by oil interests warping public policy decisions.

The existence of these perverse effects doesn't necessarily mean that an oil boom would be bad for the long-term health of the economy. Other factors also have to be considered. But the adverse effect of exchange rates (Dutch disease) and the increase in rent-seeking activities (resource curse) also have to be considered. And of course, the environmental impacts including climate change have to be weighed in the balance as well.