Our View: Democracies Required by Oil Producers for Survival

Philip Verleger
March 18, 2025

Few oil-exporting nations can be labeled democracies. Neither Kuwait, Russia, Saudi Arabia, the United Arab Emirates, nor now the United States of America can be characterized as such. Oil- and mineral-exporting nations work best as autocracies.

On the other hand, excellent economic research by the Nobel-prize-winning economist and MIT professor Daron Acemoglu and three coauthors shows that long-run per-capita GDP increases by almost twenty percent when a nation transitions from autocracy to democracy while declining by a similar amount when an autocrat, i.e., one who rules with unlimited authority and absolute power, attains control.[1]

The Trump administration's takeover of the US government has made America an autocracy. Consequently, as Acemoglu's research suggests, our long-term economic growth will slow—the specious claims of Treasury Secretary Bessent and Commerce Secretary Lutnick notwithstanding—unless democratic institutions and practices are restored. By 2050, US energy demand will be thirty-three percent lower than the EIA predicts in its most recent forecast if current circumstances persist. Fossil fuel consumption may bear the largest share of that decline should renewable costs keep falling.

The US economic slowdown could be greater and quicker if the Trump-caused economic calamity prompts our traditional trading partners to shun US goods and services. Trade wars can precipitate recessions and depressions. One hundred years ago, tariffs on the US agricultural sector sparked the Great Depression. Today, that sector is being heavily penalized by its foreign customers. It will take substantial government grants, similar to what they received during Trump's first term, to offset the losses caused by Trump's trade actions. The resulting deficit increase and further tax cuts could spawn a financial crisis, especially if the AI bubble bursts.

On the global energy front, the autocratic oil-exporting nations cannot count on economic growth in China or India, two major world consumers, because, in practice, they are not democracies. Chinese economic growth remains depressed as its citizens, put off by political repression and other factors, refuse to spend, while a global trade war could stunt India's growth. The aggressive movement by European democracies to limit their fossil fuel use will further depress consumption.

The United States' transition to an authoritarian state poses the primary danger to the economy and Americans' well-being. Here, Acemoglu and his colleagues offer a relevant warning:

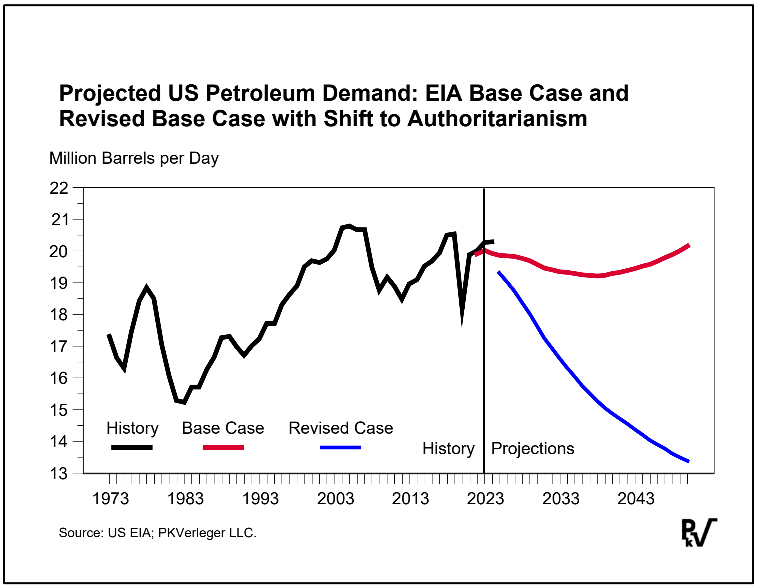
> Although our findings here are less clear-cut than our baseline results, they suggest that democracy contributes to growth by increasing investment, encouraging economic reforms, improving the provision of schooling and health care, and

[1] Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James A. Robinson, "Democracy Does Cause Growth," *Journal of Political Economy* 127, No. 1 (February 2019) [https://tinyurl.com/ja88kazt].

reducing social unrest. These results are consistent with, though of course do not prove, the hypothesis that democracies invest more in broad-based public goods and are more likely to enact economic reforms that would otherwise be resisted by politically powerful actors. Although nondemocracies could also invest in public goods or enact far-ranging economic reforms, our results indicate that, at least in our sample, these countries are less likely to do so than democracies.[2]

In Appendix 10 of their working paper, they show that the per-capita GDP increase is reversed in nations where an authoritarian replaces a democratic government.[3] As they explain in their introduction, their results suggest that this decline is equivalent to the rise that occurs with a shift to democracy.

We applied the Acemoglu *et al.* results to US data to project US per-capita GDP from 2023 to 2050 based on data published by EIA in its most recent *Annual Energy Outlook*. Our estimate for US constant dollar real GDP in 2050 is twenty-two percent lower than the EIA's projection. We also estimated the total US energy consumption in 2050 from EIA data using our lower estimate of constant dollar GDP. With the latter, energy consumption in 2025 would be twenty-three percent lower than the EIA's base-case forecast. In 2050, use would be sixteen percent lower than in 2023.



Fossil fuel consumption decreases by thirty-three percent from the EIA forecast if the losses are borne entirely by fossil fuels. Petroleum consumption would drop below 1973 levels under this assumption, as can be seen from the figure here.

The Trump administration has taken many steps to weaken environmental regulations and suppress efforts to reduce fossil fuel use in its first two months. No doubt, officials in the administration believe their actions will boost oil, gas, and coal consumption. However, the impacts of their actions to end democracy in the United States, which are constricting economic growth, will more than offset measures to stimulate fossil fuel use.

[2] Acemoglu (2019), p. 51.

[3] Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James A. Robinson, "Democracy Does Cause Growth," working paper, Boston University, November 2016 [https://tinyurl.com/yunz4u2y], p. 15.