Iraq, violence and resources

Jon Mendel rejects Iraq's 'resource curse' and argues a natural resource dividend and land tax offer real hope for the country's future

"We should make sure, if there is a conflict, in any post-conflict Iraq there is a proper UN mandate for Iraq and that oil goes into a trust fund and we don't touch it, the Americans don't touch it without UN authority. Now, we can't say fairer than that."

—Prime Minister Tony Blair, MTV Forum, 11th March 2003

PRIOR TO the invasion of Iraq, Tony Blair offered his commendably simple answer to accusations of 'war for oil'. Unfortunately, things quickly became more complex. In the post-invasion Iraqi economy, 44% of the Iraqi oil that was known to have been extracted under the Coalition Provisional Authority (CPA) disappeared off the books. As the BBC reported—more than $8b of Iraqi funds was thus "unaccounted for" under CPA rule.

Blair repeatedly insisted that one benefit of Operation Iraqi Freedom would be to give control of Iraqi oil revenues to their rightful owners: the Iraqi people. However, flaws in the CPA accountancy procedures make it—for all practical intents and purposes—impossible to verify whether or not the Coalition implemented this pledge.

Further worsening the situation, the CPA handled badly those Iraqi funds that did *not* go missing. A high proportion of reconstruction contracts were—as the Revenue Watch Institute reported—awarded without competitive tendering, and "the bulk of contracts paid for with Iraqi oil money went to Halliburton subsidiary Kellogg Brown & Root with no competition". There is also evidence of bribes having been demanded, and of foreign companies hugely inflating their charges. As Revenue Watch puts it, the CPA unfortunately "chose not to apply the same standards that apply to US funds" to Iraq's resources.

Iraqi resources—in particular, the division of oil revenues—also play a significant role in sectarian tensions in the state, and attempts to alienate these resources could considerably inflame tensions. As Larry Diamond—an expert on post-conflict reconstruction—argues, the Iraqi constitution "leaves current oil and gas fields under the control of the national government but give the regions control of any new finds". These new finds are very likely to be significant: some estimates of currently drilled reserves are as low as 20%. Due to where the different ethnic groups are predominantly (although far from exclusively) located in Iraq, this would favour Shia and Kurdish areas at the expense of Iraq's Sunni minority. This could considerably raise ethnic tensions.

Violence springing from—among other things—ethnic tensions inflamed by arguments over resource revenues can lead to claims of a 'resource curse': researchers such as Philippe Le Billion note that "compared to less well-endowed countries, resource-rich countries have been on average poorer and less competently governed".

Some view the violence in Iraq as a consequence of such a 'curse'. However, even if one accepts for the sake of argument that natural resources are correlated with worsened outcomes, correlation does not necessarily imply causation. This apparent curse is not due to any intrinsic quality of resources: for example, black liquid in the ground does not in itself cause poverty and corrupt governments. Instead, any curse is caused by the way that resources play out in various social and political contexts. It is therefore something that can be changed. As Fred Harrison—the self-styled 'renegade economist'—puts it: "nature's resources do not curse anyone. Rather, the curse flows from bad stewardship of the public domain". Improving the stewardship of the public domain has the potential to turn a curse into a blessing.

When looking to address this 'curse', one promising form of resource distribution would be to "distribute revenues directly to the people"—as the economists Sala-i-Martin and Subramanian argue in their paper 'Addressing the Natural Resource Curse: An Illustration from Nigeria'. Seeing the problems caused by Nigeria's oil resources, they "propose a solution for addressing this resource curse which involves directly distributing the oil revenues to the public".

Sala-i-Martin and Subramanian have a specific mechanism in mind for Nigeria: they advocate "an inalienable right of each Nigerian to have access to an equal share of oil proceeds. This would take the rents out of public officials [sic], thereby undermining the corroding process engendered by the rents, which have detrimental economic consequences." I will consider how and why their proposal is applicable to Iraq.

First, arguments about the distribution of resources are exacerbating ethnic tensions in Iraq. The individualisation of resource revenues could play a significant role in easing tensions around resource distribution, and thus have a major role in the amelioration of the ongoing violence and the move towards a better future for the country. While resources and resource rentals would still play a prominent role in Iraqi politics, the issue could be shifted from how much Sunni, Shia, Kurdish and other groups and local governments can take from these revenues to how much each individual or family can get: instead of incentivising competition between groups for resource revenues, there would then be a real incentive for individuals to work to maximise the dividend earned by everyone. This would be a kind of individualism, but one that has the peculiar effect of incentivising people to work together.

Also, administering resource rents in this way in Iraq would have the benefit of moving the Iraqi government away from depending upon the revenues from natural resources. Currently, the Iraqi government is able to depend on revenues from oil and other natural resources for a substantial proportion of its income. This fails to offer it sufficient incentive to build up Iraq's community values (for example, by developing its economy). If Iraq's economy were to deteriorate even further, this would not (aside from potential problems with extraction and export) reduce the resource revenues that the government could receive from oil. Iraq's govern[illegible] the benefit of a revenue strea[illegible]tained even while many aspects of the state's economy and society are in a process of collapse.

This concern about a government reliance on resource revenues does not mean I am advocating a move to taxes such as income and sales taxes: among other problems, these taxes have a negative impact upon pro[illegible] the political situation in Iraq raises signi[illegible]

problems regarding collection. Instead, I would expect that the payment of a dividend from Iraq's natural resources would allow individuals to fund a number of services that typically are offered by the state (although which are, because of the current problems in Iraq, frequently not offered to a good standard by the Iraqi state).

An improving Iraqi economy would generate greater community values: for example, the rent of residential and commercial land would rise as more people wanted to live, work and trade in particular areas. A more 'conventional' land tax therefore could be used to draw on these growing community values, in order to fund what would initially—by necessity—be a fairly minimal government. Such a tax would, as the land and transport consultant Dave Wetzel argues, allow a state to "abolish economically damaging property taxes… raise personal allowances so that millions of lower-paid workers pay no income tax at all; and reduce sales tax rates to help consumers and businesses". There are also promising options for drawing on other community values: for example, rights to utilise mobile phone radio frequencies in Iraq rented to interested network companies at a market rate.

This would have a number of benefits. A land tax would generate a certain level of income for the government and would be easier to collect than many alternatives: land is rather hard to hide or smuggle. As Wetzel puts it, "land cannot be taken to Jersey in a suitcase. Consequently land tax will be cheap to collect". This tax would also give the government a real incentive to continue working to build Iraq's communities and economy: as this social and economic development takes place, land values and therefore tax income would increase.

•

The dividend scheme recommended here would provide a very significant income to individual Iraqis. While there are multiple causes of the current violence in Iraq, financial hardship plays a clear role.

The US Department of Energy estimates Iraq's proven oil reserves at 100bn barrels: estimates for reserves yet to be discovered range from 45 to 100bn barrels. Especially bearing in mind that fossil fuel prices will almost certainly tend upwards, this is an incredible abundance of resources, of huge value. Iraq's natural gas reserves will also be significant: known reserves stand at 112 trillion proven cubic feet, with perhaps another 90–150 trillion cubic feet to be discovered. As the Project for Defense Alternatives notes, Iraqi oil income previously

Some v the vio in Iraq conseq of its 'r curse'

ranged from $10 to 12br market production and adding another $2bn) a to more than double pr investment. Exporting could thus allow appro year basic income for e citizens. This is before resources are taken int a significant addition t in 2003 the UN estimat income was $450–610,

A virtuous circle ma reductions in hardship other areas themselves and therefore increase Iraqi resources (and in other sources). To cont virtuous circle, this pro to a further improveme economic situation in I

The ways in which I used and abused have the post-invasion disor weakened the state and de-legitimising both th and subsequent Iraqi g

There needs to be a distributing Iraqi resou to distribute revenues f

No 1222 Vol 115