## Iraq: the case for oil revenue distribution funds

*The resource curse casts a long shadow over oil exporters in the developing world.* ***Thomas Palley*** *argues that oil revenue distribution funds may be a way to break the curse in Iraq.*[1]

Saddam Hussein's Iraq is a tragic example of the natural resource curse. Iraq is exceedingly rich in oil, having proven reserves of 112 billion barrels, representing 10.8 per cent of total world proven resources. Moreover, many believe that Iraq's potential may be far greater as the country is relatively unexplored due to years of war and sanctions.[2] However, like many other countries rich in natural resources, Iraq has failed to benefit from its oil wealth. The autocratic regime of Saddam Hussein used Iraq's oil revenues to finance domestic political suppression, military aggression, and state looting – as exemplified by wasteful spending on presidential palaces and transfers of funds to personally owned foreign bank accounts.

### Directly to the people

Good governance is key to heading off the natural resource curse. However, developing efficient states with good governance takes time, whereas developing oil fields and building pipelines happens rapidly. Oil revenue distribution funds (ORDFs) that directly distribute oil revenues to citizens are an important means of addressing this conundrum. These funds can be established quickly and with significant transparency. By side-stepping government, they reduce the space for government corruption, and have several other beneficial economic and political qualities. Such arrangements have been implemented on a modest scale in Alaska, and now hold great promise for developing countries.

ORDFs can unleash positive lasting economic and political transformation. On the economic side, oil dividends would be paid directly to citizens, empowering them to lead economic growth. Citizens would have money to spend, spurring the domestic market economy.

Income distribution is highly unequal in many developing countries. This inequality is bad for growth and for democracy. The payment of a flat oil dividend to all citizens would constitute a progressive redistribution, helping to equalise the distribution of income, while serving as seed money for poorer citizens to become entrepreneurs. Since the dividend would be a regular source of income, it would also provide collateral for ordinary citizens to finance small business investment projects. This in turn would stimulate development of credit markets, which are so essential for development.

Another problem that frequently afflicts oil rich countries is economic activity skewed toward excessive government, a feature that promotes corruption. Directly paying revenues to citizens would help rectify this structural imbalance. On the political side, citizens would have an incentive to become politically engaged to protect the dividend paid by the ORDF; they would also have an incentive to ensure that state-owned oil industries operated efficiently so as to maximise the dividend.

One objection to distributing oil revenues is that it would starve developing country governments of money needed for infrastructure building. However, this objection is misplaced. The goal is to build lasting political and economic development, and trade-offs must always be made given scarcity of resources. Directly distributing a chunk of oil and mineral revenues to citizens may be the best development investment, yielding higher returns than infrastructure spending in terms of creating political ownership and economic dynamism.

**The benefits for Iraq**

Iraq stands to benefit from an oil distribution fund. In a recent New York Times op-ed (9 April 2003), Steve Clemons of the New America Foundation proposed that Iraq establish an Alaska-style oil fund that would pay annual dividends to the citizens of Iraq.[3] But given Iraq's current condition of economic collapse and its history of autocratic kleptocratic governance, there are strong arguments to modify this proposal. An Iraq oil revenue trust fund should directly distribute oil revenues to Iraqi citizens. Thus, rather than saving a share of revenues in a trust fund and building up the fund over time, a significant portion of oil revenues should be immediately and directly paid to Iraq's citizens. In addition, a companion fund should be established that would distribute a share of oil revenues to provincial and local governments. This second fund can ensure a fair regional distribution of revenues, thereby reducing the potential for regional grievances which can lead to civil war. This is a major concern in Iraq which is afflicted by significant regional divisions.

Finally, it is critical that any decision to implement an oil revenue distribution fund be taken by the Iraqi people, through legitimate democratic institutions. Paul Bremer, the top US administrator in Iraq, has recently expressed support for such a fund (New York Times, 13 July 2003). While it is appropriate for Bremer to contemplate some form of temporary distribution during the transition to constitutional democracy in Iraq, any permanent arrangement must be the decision of the Iraqi people. This is the only way an arrangement can have lasting political legitimacy.

1 This article is an abbreviated version of a longer paper "Combating the Natural resource Curse with Citizen Revenue Distribution Funds: Oil and the Case of Iraq." The full paper can be found on the Open Society Institute, Washington DC website, [www.osi-dc.org](www.osi-dc.org).

2 See U.S. Department of Energy Iraq Country Analysis Brief, [http://www.eia.doe.gov/emeu/security/esar/esar.html](http://www.eia.doe.gov/emeu/security/esar/esar.html)

3 Proposals in a related vein have also been put forward by others. For instance, The Economist (April 19, 2003, p.10) suggests “it would be wise to pay some cash out of oil revenues to every Iraqi.” The current paper fully articulates the economic and political case, and expands and formalizes this proposal.

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