

Political Economy, Mr. Churchill, and Oil

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Outline

- 1) Economists and Politics
- 2) Churchill in Africa
 - 1) United States, Norway, Russia, and others
 - 2) Angola: Then nothing is wrong
 - 3) Cross-country evidence
- 3) Oil and Human Rights
 - 1) The state or the people?
 - 2) Distributive options
 - 3) Democracy under stress
- 4) Conclusion

From Lee Kuan Yew to Jeffrey Sachs

- Sometimes political leaders are more prescient than their economic advisers or academic contemporaries
- Lee Kuan Yew, founding father of Singapore (1959-1991):
 - “I thought then that wealth depended mainly on the possession of territory and natural resources It was only after I had been in office for some years that I recognized that ... the decisive factors were the people, their natural abilities, education and training.”
 - Years later Sachs and Warner noticed that some countries have grown disappointingly slowly for reasons having to do with their mismanaged dependence on their natural resources

Two Main Aims

- 1) Recall Winston Churchill's 1908 conclusion about Uganda and its natural resources
- 2) Discuss the management and macroeconomic impact of oil and other natural resources in terms of constitutions, human rights, and democracy ...
 - ... aspects that are grounded in law and political economy often overlooked by economists and governments preoccupied by economics
 - Empirical evidence of the cross-country relationship between diversification and economic performance will be reserved for my honorary lecture tomorrow at 10 am

What Churchill Said in 1908

- “All this waterpower belongs to the State. Ought it ever to be surrendered to private persons?”
- ... in Uganda the arguments for the State ownership and employment of the natural resources of the country seem to present themselves in their strongest and most formidable array.
- ... the profits will not go to the Government and people of Uganda, to be used in fostering new industries, but to diverse persons across the sea, who have no concern, other than purely commercial, in its fortunes.”

My African Journey, 1908

Norway Paid Attention I

- Norwegian government understood this fully from the outset
- Oil within Norway's jurisdiction is defined by law as the property of the state
 - No significant rent seeking took place
 - Oil barons and oligarchs are few and far between in Norway; the terms hardly exist in the country's political vocabulary
- This is in sharp contrast also to Iceland where "sea barons" and "quota kings" have been ubiquitous in political discourse since the mid-1980s

Norway Paid Attention II

- The Norwegian people, through their government, have managed to keep 80% of the oil rent, most of it in a Pension Fund that is, at more than \$1 trillion, or \$800,000 for every family of four, by now the world's largest Sovereign Wealth Fund
- Norway avoided the dangers that Mr. Churchill feared in Uganda
- Norway's political culture proved mature enough that no detailed protection in the constitution against private expropriation of the oil wealth, domestic or foreign, has been considered necessary

Constitutions

- Constitution makers increasingly view natural resources as common property resources that belong to the state on behalf of the people or to the people directly
 - Russian constitution: “The land and other natural resources may be in private, state, municipal and other forms of ownership.”
 - Ugandan constitution: “All minerals and petroleum in Uganda are held by the Government on behalf of the people of Uganda.”
 - Icelandic constitution bill: “Iceland’s natural resources which are not in private ownership are the common and perpetual property of the nation.”

The State or the People?

- By international law, the property rights to natural resources belong to the people
- Article 1 of the International Covenant on Civil and Political Rights (ICCPR) states that
- “All people may, for their own ends, freely dispose of their natural wealth and resources.”
 - Violations of this principle can be referred to foreign courts
 - UNHRC has declared discriminatory allocation of fishing quotas in Iceland to constitute a violation of human rights

State Ownership vs. National Ownership

- State ownership (e.g., public office buildings) means that the state can sell or pledge such assets at will
- National ownership (e.g., cultural assets like the Hermitage or natural assets like energy) means that the state cannot sell or pledge such assets because they are considered invaluable and irreplaceable
- Losing them would violate the rights of the current generation's descendants who might later realize that their parents had plundered the nation's common heritage

The Importance of Democracy

- The key to the human rights perspective on natural resources and their management is democracy and the rule of law
- The crucial difference between the US and, say, Angola or Equatorial Guinea is that, under democracy, US citizens are not defenseless against their government's natural resource management practices, and never were
- In Angola and Equatorial Guinea, by contrast, the lack of democracy and disrespect for human rights and rule of law leave ordinary citizens virtually defenseless against the usurpation by governing elites of the people's natural resource wealth and the rents it generates

Law, Politics, and Economics I

- Natural resources belong to the people as a matter of almost universally acknowledged international human rights
- The plundering of natural resources, even when permitted by local laws, violates international human rights covenants that supersede national laws
- This is why natural resource management is a legal concern as well as an economic and political one

Law, Politics, and Economics II

- This is what Winston Churchill must have been thinking when he spoke up for state ownership of natural resources in Uganda in 1908, the prevalent arrangement in today's world
- And this is why national constitutions increasingly define natural resources as a common property belonging to the state on behalf of the people if not to the people directly
- Even so, in many countries state ownership by law has not sufficed to secure the right of the people to the rents from their resources

Conclusion

- This is why national ownership is needed, anchored as it already is in international bills of human rights
- And this is why national ownership rather than state ownership or other forms of ownership needs to be anchored also in national constitutions ...
- ... and also why it helps to promote peoples' rights to the rents from their natural resources as well as their individual freedom from discrimination as a matter of human rights to further strengthen the civil rights of ordinary people against self-dealing elites

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