How Resource Revenues can Halve Global Poverty

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'The meek shall inherit the Earth, but not its mineral rights'
J. Paul Getty

Who benefits from oil revenues? The bitter struggles for oil nationalisation through the twentieth century bear witness to the sensitivity of this question. Now that the principle of national sovereignty over natural resources has been established, the debate has moved on from which *countries* should benefit from resource revenues, to who *within* the resource-exporting countries will benefit. Political upheavals in Venezuela and Bolivia are two dramatic examples of what can happen when a majority feel that they are not getting their fair share of their national patrimony. This question became all the more pressing during a decade of rising commodity prices, leading to record oil prices, which the global financial crisis appears to have slowed only temporarily.

But while the years leading up to the current economic crisis were a period of almost unprecedented global growth, the World Bank has reminded us that well over a billion people still live in extreme poverty, below the World Bank's '$1-a-day' poverty line (now updated to $1.25 per day at 2005 prices and measured in purchasing power parity international dollars). In 2000 the United Nations pledged to achieve a set of Millennium Development Goals by 2015, the first of which is to halve the proportion of people living in poverty from its 1990 level. I have been considering whether resource revenues might lend a hand in achieving this Goal.

In doing so I have been analysing the potential impact of the simplest policy imaginable: that each citizen within a country receive his or her per capita share of their country's resource revenues, without conditions or qualifications. Since the payment would be uniform across all citizens within a country the relative impact on incomes would be greatest for the poorest, and the impact on poverty is potentially large.

This idea, which I call the *Resource Dividend* (RD), has been gaining traction recently in discussions of major hydrocarbon producers: the policy has been suggested for Iraq, Nigeria, Bolivia, and for energy exporters more generally. The Alaskan Permanent Fund, which receives 25 percent of state hydrocarbon revenues and passes them on as a Dividend to the citizens of the state, is an existing, though partial, version of the policy. But the originator of the idea that all citizens should receive some direct share of their national patrimony was Thomas Paine, in his 1795 pamphlet *Agrarian Justice*. Writing on the land enclosures in England, Paine started from the premise that 'the earth, in its natural, cultivated state was, and ever would have continued to be, *the common property of the human race***.** In that state every man would have been born to property' (emphasis in original). From this he argues that privatisation of resources may be desirable from the point of view of efficiency, but that all citizens should receive indemnification for their loss of 'common property'.

The idea that all citizens have an equal right to the natural endowment of his or her country thus has a long history, and is intuitively appealing. This does not imply that international oil companies, service companies, and other individuals and organisations involved in the process of making natural resources marketable should not receive fair payment for their services. But once these services have been paid for, the remaining revenues are pure *rents*: they are attributable to the bounty of the earth, and not to the efforts of any individual. As such, no individual has any special claim to them. In international law, codified in the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social, and Cultural Rights, and other treaties, the world has agreed that resources belong to *the people* of the country in which they are found. The RD is a natural way to ensure that *the people* receive their fair share of their resources.

The Calculations

The Resource Dividend is a national policy, but the hope is that many countries would implement it. To estimate its potential impact on global poverty one therefore needs two global datasets: estimates of resource rents in all countries, and estimates of the distribution of income in all countries. Both are available from (different parts of) the World Bank and details of data sources and estimation methods can be found in my 2009 paper referred to below. Following the Alaskan Permanent Fund I assume that the RD is paid out as the 5-year average of resource rents, which allows some smoothing of incomes.

After re-estimating the number of people living below the World Bank's $1-a-day poverty line, I perform two exercises. First, I simply add the RD to everyone's income and count the number of people falling below the poverty line. However, if a government is already taxing resource rents then the expectation will be that other taxes will be raised to compensate for the lost resource revenues. The first calculation therefore assumes that all extra taxes are levied on those who were above the poverty line before the policy was implemented. Since the very poorest rarely pay any taxes this is not an entirely unreasonable assumption. But as a robustness test I also perform a calculation where each person is assumed to pay taxes proportional to their post-RD incomes, at a rate equal to the share of rents in GDP. So if rents are 4 percent of GDP and this implies a RD of $10 per month, then in this second calculation I add $10 to each person's income and subtract 4 percent from the total. The results are presented in Table 1.

Table 1: Number of people living below $1-a-day poverty line in 2005, millions

Current	1,327	(25.6%)
With RD	600	(11.6%)
With RD and tax	741	(14.3%)

Source: Author's calculations.

The number of people living below the poverty line in 2005 is estimated at 1.3 billion, or 25.6 percent of the population of the developing world. With the RD on its own, this drops to 600 million, a decline of 55 percent. With a RD that is paid for out of taxes proportional to income the number is 741 million, a decline of 44 percent. Global extreme poverty is therefore approximately halved by the policy, and the first Millennium Development Goal achieved at a stroke.

While the RD has been on the agenda for hydrocarbon exporters for some years, what is striking about these calculations is that the great decline in poverty is due primarily to countries that are not particularly rich in natural resources. Nine countries reduce poverty by more than 10 million people with the RD (Brazil, China, India, Indonesia, Nigeria, Pakistan, South Africa, Uzbekistan and Vietnam). Of these, five have resource rents comprising less than 6 percent of GDP. These five – Brazil, China, India, Pakistan and South Africa – account for 54 percent of the total population of all developing countries and 67 percent of the poverty reduction due to the RD. Poverty reduction due to the RD is therefore not primarily due to resource-rich countries. And while the impact of the RD on poverty is dramatic, 6 percent of GDP does not, by global standards, amount to a dramatic redistribution – European countries spend 6.6 percent of GDP on redistributive cash benefits, excluding pensions (and much more including pensions).

In India, for example, natural resource rents comprise 4.2 percent of GDP, most of it due to oil, gas and coal. But the RD reduces extreme poverty in India from 42 percent of the population, or 455 million people, to 20 percent, or 223 million people (24 percent or 267 million with proportional income taxes). What accounts for this surprising result? While the RD in India amounts to only $2.60 per person per month in cash terms, in terms of real purchasing power (using purchasing power parity, or PPP, exchange rates) this is worth more like $6.60 in urban areas of India, and $10 in rural areas – a reflection of the well-known fact that most everyday consumption goods such as food are relatively cheap in poor countries compared to rich countries. In 2005 prices, using PPP$, the World Bank's poverty line is PPP$38 per month. In rural areas India's RD is thus more than a quarter of the income of anyone below the poverty line. In China the RD is larger at $7.50, equivalent in PPP terms to PPP$20.50 in rural areas and PPP$15 in urban areas. Chinese extreme poverty is 16 percent or 211 million people; this drops to a mere 1 percent of the population with the RD, with or without a compensating tax.

Policy Challenges

For many developing countries the Resource Dividend would have a dramatic impact on poverty. But implementing such a policy may seem a huge challenge. It would have to overcome both political constraints and administrative constraints.

The political constraint is the simple fact that if governments are currently enjoying the flow of resource revenues to their coffers, then they are likely to be reluctant to give them up. While the proposal is that they recoup their lost revenues through general taxation, raising taxes is hard work and governments may prefer an easy source of revenues to the struggle of persuading citizens and businesses to hand over their money for government spending. On the other hand, the policy is in the direct interest of a majority of citizens. One might therefore expect it to be politically feasible only in a democracy where, for instance, an opposition party might decide that the RD is a vote winner, and that being in government with no source of easy money is better than being out of government.

The administrative constraint is that many developing countries with large informal economies have limited administrative reach across their territories, and getting cash payments out to citizens in distant or cut-off areas would be a challenge. But with modern technologies it would not be insuperable, and perhaps the most important technological advance in this area is the rise of cheap mobile phones, which enable people to manage bank accounts in remote areas in a number of developing countries. Beyond this minimal mobile phone infrastructure all that is needed is an electoral

roll to determine who is a citizen. As an unconditional and untargeted transfer, the RD is easier to implement than any other form of social benefit. The RD therefore requires no great administrative leap and would be feasible for all but the very weakest states.

Further Benefits

The political and administrative challenges are not insuperable. Moreover, they point towards further benefits associated with the RD. For governments of resource-rich countries that rely on resource revenues to fund the government, giving up these revenues and having to raise taxes from citizens and businesses in society may even ameliorate the *resource curse*, the finding that resource-rich countries tend to grow more slowly than resource-poor countries. One explanation for this negative effect is through the impact of resource revenues on government institutions. The argument is that it is only through the process of raising taxes that governments develop administrative capacity and the institutions of conflict resolution that define good government. When revenues can be extracted out of the ground, or through negotiations with mining companies alone, then the government is likely to pay little attention to fostering the rest of the economy and society. Losing resource revenues and having to raise taxes on the rest of the economy may therefore force a government to become both more effective and more accountable.

Moreover, the RD gives citizens a strong incentive to register with the fiscal system in order to receive their share. By reducing informality in the economy this would help to increase government administrative capabilities, and facilitate reforms of the fiscal system more generally – which are typically sorely needed in developing countries.

A final benefit of the RD is that its great simplicity would reduce the ease with which resource revenues can be skimmed off by corrupt individuals. This is for two reasons. First, the RD should be administered by an independent government institution that receives resource revenues and disburses them to individuals. By keeping these revenues separate from the government budget they are automatically insulated from standard forms of corruption such as overbidding for government contracts. Second, the RD is the easiest policy to make transparent. The administering institution would publish the quantity of revenue and the number of citizens, and each citizen will then know how much he or she is due. When people know what they are due it is much harder to keep it from them.

Conclusion

The impact of the Resource Dividend is potentially dramatic and it could reduce global poverty by half. But its greatest impact is in countries for which resource rents comprise less than 6 percent of GDP – and 6 percent of GDP is not, by global standards, a major redistribution. The policy is not as difficult to implement in administratively-weak developing countries as one might assume, and the implementation may indeed reinforce a government's administrative capacity by providing an incentive to workers in the informal economy to register with the fiscal system. Beyond these practical benefits, the RD is also legally and morally the most defensible use of resource revenues: since the natural resources in a country belong to all its people, the people should receive their fair share.

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