

An International Natural Resources Fund for Failed States

By

Deepak Lal

The World Bank recently produced a list of potential failed states. Most of these are in the Islamic world and Africa. Nearly all have abundant natural resources. In my book with Hla Myint, *The Political Economy of Poverty, Equity and Growth* synthesizing the post war experience of 25 developing countries we found that natural resources have proved to be a precious bane. This is for a number of reasons. The major one is the strong temptation for anyone controlling the state to appropriate the rents from natural resources for their own purposes. The various civil wars in Africa, including the ongoing ones in Liberia and the Congo, are fuelled by the desire to control these rents. While it was the rents from their oil which has permitted Middle Eastern autocrats from Libya's Gaddafi, Iraq's Saddam Hussain, the Iranian mullahcracy, and the Saudi monarchs, to pursue aims as diverse as funding global terrorism, the development of weapons of mass destruction, and the export of Wahabism. What is to be done?

The answer must be to find a way to depoliticize these natural resource rents, as in failed or failing states, the political struggle surrounds their capture. Lacking any assurance about their tenure, the time horizon of the incumbent predators is understandably very short: he maybe killed or overthrown in the next battle for the control of the rents. Hence, it is rational to get out as much, as soon as possible, out of the country. Once we have such a failing state, an obvious solution, adopted for example by Alaska, to distribute its oil revenues to its citizens by writing cheques through the tax system, is not available. For it requires a functioning state.

An international extension of the UN oil-for food program in Iraq could provide a prototype for a solution. Given the US' understandable lack of confidence in the UN after its recent shenanigans concerning the Iraq war, the UN would not be the right agency for this long term development task. Nor could the US do it through a purely domestic institution because of the nationalist passions that would unleash.

But there are two multilateral institutions, - the World Bank and the IMF- which (as I have argued elsewhere*) having fulfilled their original purpose should in reason be shut down. But, like old soldiers, international institutions never die. They should now be amalgamated and given a new role. They can call on the expertise of an international technocratic bureaucracy, and unlike the UN are not subject to populist international pressure (though there maybe doubts on this score about the present day World Bank) and given their weighted voting systems, are likely to be acceptable to the US. A conjoining of their staff to form an International Natural Resources Fund (INRF) would thus be desirable.

The purpose of the INRF would be to obtain the rents from the natural resources of failed or failing states, once they form part of the direct or indirect US Imperium. These revenues would be put in escrow by the fund for use *only in the country in which they were generated*. The funds from these country escrow accounts would only be released on the authority of the INRF for purposes determined by the fund's managers in consultation with the local government

-mainly for social and economic infra-structure projects. These projects would be subject to the international bidding, controls and monitoring procedures of the World Bank. This would depoliticize the deployment of the natural resource rents and remove one of the major reasons for the failure of states.

But, how could predators be prevented from attacking and capturing the mines generating the rents? Here the prowess of an Imperial power is crucial. It needs to provide the necessary military muscle to protect the mines. Alternatively, it could follow the example of China during its period of the warlords, when foreign companies were leased territory, which they could protect with their own police forces, in return for royalties to the INRF. But even this privatised solution would require the imperial power to maintain “gunboats and gorkhas” at the ready, in case some local predator decided to mount a challenge to the private controllers of these mines.

In time, as the resource rents properly deployed led to general prosperity, and the art of governance was inculcated in the populace, the INRF could hand back the escrow account to the local government. But this is likely to be a long haul, and it is an open question whether the US has the will to undertake this long- term task of “nation building”. But without it, the natural resources which should have brought prosperity to the general populace will continue to be used to oppress them, as well as being stolen by predatory elites or worse providing the means for funding the global terrorism which remains a serious source of international disorder.

Deepak Lal is James Coleman Professor of International Development Studies at University of California, Los Angeles.

* *The Poverty of Development Economics*, 3rd edition, IEA, 2002