

Property Rights in Iraq

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For the Bush administration to establish the basis for a prosperous and democratic Iraq it must demolish Soviet styled government ministries and state-owned enterprises and re-establish a strong private property rights system. No matter how well the Iraqi constitution is written or how many troops are in place to secure the country, prosperity will elude the Iraqi people if they do not have clear title to their property, including oil. To wait for a future Iraqi government or the UN to do the job is to invite conflict between entrenched interest, between regions and between ethnic groups, over the main prize, oil. Assigning oil rights to every Iraqi citizen now will avoid an enormous source of future destabilization. Also, private ownership means Iraqis would not have to wait for revenues as their oil is pumped from reserves. Selling long-term oil leases would generate the money up front.

PRIVATE PROPERTY AND PROSPERITY

Countries with strong property rights systems prosper relative to those with weak ones. On average, GDP per person is five times as high in countries that secure private property than in countries those that do not.¹ The reason is simple. In strong systems, prices can more effectively allocate economies resources. And what makes a strong system is the honoring and enforcement of individuals rights to use their resources as they

¹ See: Lee Hoskins and Ana I. Eiras, "Property Rights: The Key to Economic Growth," in Gerald P. O'Driscoll Jr., Kim R. Holmes, and Mary Anastasia O'Grady, 2002 Index of Economic Freedom (Washington: The Heritage Foundation and Dow Jones, 2002), p. 40. Gerald P. O'Driscoll Jr. and Lee Hoskins, "Property Rights: The Key to Economic Development", Policy Analysis, Cato Institute, No. 482, August 7 2003.

see fit and to permit voluntary exchanges. In short, clear titles to property and honoring the rule of law are prerequisites for success.

To be sure, establishing a democracy in Iraq is no guarantee that a newly established system of private property would endure for there are plenty of illiberal democracies that attenuate private property rights, Argentina being the latest example. But the strongest systems seem to be in established and wealthy democracies that honor the rule of law.² These democracies may have found the benefits of protecting private property outweighed the costs or it may be that private property promotes freedom and sustainable democracies as well as wealth. In any event, the U.S. has an opportunity with a short time frame to strengthen private property in Iraq. An outside authority imposing or strengthening a private property system with great success has occurred before, namely in the case of Hong Kong.

OIL FIRST NOT LAST

There are several reasons to assign ownership rights to oil to every Iraqi citizen. First, oil is or will be one of the most contentious issues to Iraqis. It is a huge prize that will prompt attempts to capture it by rival groups or regions, by force or threat of it. Second, state ownership is a losing proposition in terms of efficiency and corruption and will ensure conflict among ethnic groups. The ballot box cannot solve the problem, as the loser group will not accept the outcome given the size of the stakes. "State-ownership of natural resources, along with sharp ethnic differences is a recipe for political instability and sub par economic growth. The only stable outcome is a dictatorship powerful enough to impose order and divide the spoils."³ Iraq should not be left to repeat it's own history.

Start by assigning individual Iraqis rights to the oil. Divide oil reserves into a number of pools and allow international oil companies to bid for long-term leases. Individual Iraqis could keep the assigned rights (stock) and earn dividends or sell them at the market price. Oil companies would be responsible for all

² O'Driscoll and Hoskins, p. 10.

³ Gerald P. O'Driscoll, Jr. and Lee Hoskins, "Free Iraq's Market," New York Post, August 24, 2003

exploration, production and servicing thus putting the state out of the oil business. State operating revenues would come from taxes.

There are plenty of variations on this theme but the important issue is to assign clear ownership to individuals and the ability to transfer ownership to a buyer. No one has to wait for the oil to be pumped from the ground because an asset is owned that can be converted to cash. Iraq has proven reserves of over 112 billion barrels and perhaps double that amount exists, as 90 percent of the country has had no oil exploration. That translates into a lot of cash. Reconstruction of the country would not have to rely on the largesse of others and the Bush administration would not have to again beg Congress for funds for Iraq.

Other state owned enterprises could be privatized in much the same way – put them on the auction block or shut them down. Much has been learned about what works best in terms of privatization of state owned companies from the Soviet and eastern European experiences as well as the success of the British in dumping their state owned dogs.

MONETARY AUTHORITY

A stable currency is needed to facilitate privatization. Current plans call for an independent central bank. This is a bad idea, at least for now. Establishing independence in an institutional bankrupt Iraq seems a dubious proposition. Central banks that are not independent end up lending to their government, which leads to serious inflation problems. They also lend to troubled banks and companies. Such loans can inject significant moral hazard problems into an economy. Two options remain and both would provide a stable currency. Iraq could use a reserve currency such as the euro or the dollar or it could establish a currency board.⁴ For reasons of national identity the currency board option is probably more palatable.

⁴ Steve H. Hanke and Matt Sekerke, “Monetary Options for Postwar Iraq,” Foreign Policy Briefing, No. 80, September 22, 2003, Cato Institute.

The external debt incurred by Saddam is estimated to be \$116 billion excluding war reparation claims. Even if Iraq could pay all claims it should not. The general rule is that the government of a country is responsible for previous governments' debts. However, there are numerous exceptions to this rule. Many highly indebted countries have had their debts canceled or substantial discounted. Another exception is odious debt. Certainly the loans for arms or war making capabilities to a country under UN sanctions fall into this category. Corporations and governments that do business with rogue states should not be reward for doing so. Paying off this debt would encourage lending to other bad actors on the political stage. War reparation should continue to be negotiated and paid. Doing so may act as a deterrent to those contemplating war on their neighbors.

THE CURSE OF OIL

Many countries blessed with oil or other natural resources have squandered their bounty and failed to diversify and growth their economies. Nigeria is classified as a highly indebted poor country yet it is an oil producer. Real GDP per-capita in Saudi Arabia has declined substantially. Argentina and Venezuela, both oil producers, are strife torn and suffer struggling economies. The Bush administration has the opportunity to lift this curse from Iraq by immediately assigning oil rights to Iraqi citizens and privatizing its oil resources along with rest of the economy. Doing so would not only help Iraq but also the American taxpayer.

