Offshore Gas Belongs to the Lebanese, So Let Them See the Money

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It is now almost certain that Lebanon's maritime exclusive economic zone contains hydrocarbon deposits. In fact, there appears to be quite a substantial amount of such deposits, according to advanced seismic tests prepared by the United States Geological Survey.

In spring 2010, the survey estimated the recoverable amounts of gas and oil in the Levant Basin in the Eastern Mediterranean (of which Lebanon's exclusive economic zone constitutes close to a third in terms of area) at some $700 billion in gross market value. This is subject to likely upward revision, thanks to subsequent discoveries of large gas fields off the coasts of Haifa and southern Cyprus.

Lebanon's actual share of the projected total Levant Basin deposits is still a matter of speculation. It will be some time before hydrocarbon discoveries off the Lebanese coast translate into revenue for the country's treasury. But the writing is on the wall. We will be joining the club of oil and gas countries, and will be receiving substantial amounts of money from the sale of our natural resources.

The focus now is, as it should be, on completing the legal, technical and administrative steps to move forward the lengthy process of preparation for the drilling phase. Too much time has already been wasted. However, I believe it is not too early to ponder what is, in my view, a fundamental policy issue regarding future oil and gas receipts.

If one were to ask the Lebanese what they thought should be done with the revenues from the sale of the country's oil and gas, the answer would seem obvious, and might go something like this: The money should be used by the government to reduce the public debt, and if possible to increase public-sector investment. However, if you, too, think this conclusion is obvious, maybe you need to think again.

There is no doubt that Lebanon's fiscal deficit and government indebtedness must be cut. There is also an unquestionable need to upgrade the nation's infrastructure. But that is not the issue here. What is the issue is whether the receipts from the sale of Lebanon's natural resources should be used to finance the government and reduce the debt, or whether they should go to their rightful owners.

Let me say it outright: I believe Lebanon's revenue from oil and gas should, as a matter of principle, be distributed directly to all the Lebanese people, in equal shares. And there are many reasons why.

The proceeds from the sale of natural resources are not tax revenues. Nor are they fees collected by the state in return for the provision of a public service. They are money received by the state from the sale of assets which belong to the Lebanese people. All the Lebanese people. The state is essentially entrusted with managing (including, in this case, selling) such natural assets on behalf of Lebanese citizens.

Surely, some might protest, the state needs financial resources to perform its functions and reduce its debt. But those needs should be met by resources collected from taxpayers on the basis of sensible and reasonably fair burden-sharing implicit in the tax system. Tax systems vary from country to country and tax policies are often the most contentious issues in domestic politics. But almost all tax systems, including the one in Lebanon, are progressive. Those who earn more and spend more are expected to carry a larger share of the burden – in terms of absolute amounts and as a percentage of their income or spending. It is only fair that the rich pay more in taxes than the poor.

How does this principle apply to the revenues received by the state from the sale of gas and oil? It makes much more sense for those revenues to be distributed to the Lebanese people equally, and for the progressive tax knife to be applied to them subsequent to this, instead of confiscating those receipts from the Lebanese, rich and poor, before the money reaches the pockets of its rightful owners.

Radical as this may seem, I believe the direct distribution of natural resource revenues to all Lebanese is the most logical and the fairest thing to do. We can even add that it would be both illogical and unfair for the government to keep those receipts for itself. This is true even if the government is corruption-free and spends the money wisely.

Consider two families, one with an annual income of $10,000 and another with an income of $100,000. Assume, for the moment, that the usable proceeds from gas and oil reach a sustainable annual level of $3 billion. Given that Lebanon has roughly 1 million households, this translates into about $3,000 per household (the numbers here are clearly for illustration purposes only). For the state to retain all the oil and gas proceeds would be tantamount to a 100 percent tax levied on each household's share of the gas and oil income. Why should the government take away, in an equal amount, $3,000 in additional taxes from the $13,000 per year family (annual household income plus the revenue per household from the gas and oil revenues) as it does from the $103,000 family? The answer is that it shouldn't.

Instead, the state should distribute the tax burden on the basis of income and consumption after every Lebanese receives his or her share of oil and gas receipts. Imposing a 100 percent tax on this particular component of people's income would be grossly unfair. This is true irrespective of the progressiveness of the tax system. If the ineffectiveness of the tax system is illustrated by the fact that the family earning $100,000 a year is not paying much more in tax than the $10,000 family, then it is even more unfair for the government to tax both families equally on their $3,000 in incremental income.

But the significance of the proposal goes beyond justice in the distribution of the tax burden. There are other implications of a direct distribution of oil and gas income, almost all of them positive.

Everyone agrees that poverty and income polarization in Lebanon have become national social problems of major proportions. I just gave an example of a family making $10,000 a year. Many families actually make much less than that. Some have hardly any sustained income at all. Regular and direct distribution of money to families can make a substantial difference in the lives of many Lebanese who are struggling to meet their basic needs.

The potential developmental implications should also be obvious. In many parts of Lebanon, especially in economically depressed regions, a boost to household income and spending power would stimulate economic activity. Moreover, a steady and sustained flow of additional income (even if this were modest) would enhance the ability of households to capitalize that flow, primarily through the banking sector, and to undertake small capital investments, which otherwise they would be unable to do.

If by now you are reasonably convinced, perhaps a number of other questions are racing in your head. Some of them may be technical in nature. Can a direct transfer of revenues to citizens actually be carried out? What about fraud? And who would qualify? Should the money be distributed to all Lebanese or only to adults?

The advances in information technology, which would assist in identification, communication and distribution purposes, have made these kinds of issues quite manageable. As we know, personal and voter registration records are already being used for multiple purposes. It is not very difficult to establish a secure and periodically verifiable and updatable database of the Lebanese. Chances of abuse and misrepresentation would be greatly reduced by the fact that it would be an equal distribution to all, not one based on means testing or income criteria, which would be more difficult to verify.

Whether the distribution should be to all citizens or to adults only would need to be debated. One consideration is that distribution to all Lebanese, regardless of their age, would be an inadvertent fertility incentive (whereby more children would mean more family income). Also, mechanisms to take care of parentless children would need to be established, probably by the Ministry of Social Affairs. These issues are important but also secondary, once the basics of the system are accepted. They do not negate the case for direct cash distribution.

And what about the potentially erratic nature of the oil market? Wouldn't this create undesirably large fluctuations in the amount of money distributed periodically to individuals?

Well, only if the distribution is done improperly. Policies and mechanisms to insure stability and long-term sustainability of income from oil and gas, and to avoid inflationary pressures, are clearly necessary. This is the case regardless whether it is the state or households that are receiving and spending the supplemental income. Stabilization mechanisms (involving natural resource funds or sovereign wealth funds) are in existence in many countries and are not particularly difficult to establish and administer.

If the case for direct cash distribution is valid why should it apply only to oil and gas receipts? What about other natural resources?

In principle, the argument for direct distribution should apply to any sale of natural resource assets, not only hydrocarbons. One could make a case that when the amount of revenue is small relative to the size of the economy and to average per capita income, it does not justify the establishment of a direct distribution mechanism. But the principle clearly is the same irrespective of the type of natural resource asset in question, whether hydrocarbons or otherwise.

In some countries, governments or authorities are already engaging in a direct cash distribution from natural resources. The best example is the oil-rich American state of Alaska. Every resident receives an annual check amounting to roughly $1,500 from a fund managing the state's gas and oil assets established specifically for that purpose. The fund undertakes an annual distribution of the money to individual Alaskans in a way that insures stability and long-term sustainability. By all accounts, the program has been especially successful.

If that is the case why is it that direct cash distribution of natural resource receipts is not implemented more often internationally? As a matter of fact, a growing number of countries, particularly in Africa, are establishing or considering policies that involve direct cash distribution of natural resource revenues. However, it shouldn't come as a surprise that governments generally dislike surrendering their financial power. It is more convenient for them to gain additional revenues (surreptitiously) through the sale of natural resources than through the politically demanding, but also much fairer, measure of raising taxes in conjunction with cash distribution.

International creditors also prefer that debtor governments keep natural resource receipts in government hands to ensure debt repayment. Between convenience and the interests of powerful political and economic actors on the one hand, and distributive justice on the other, it is not difficult to guess who the winner usually is.

An increasing number of economists and development specialists are coming around to the advantages of direct capital transfers from natural resources. Notable among them is Marcelo Guigale, the director of the World Bank's economic policy and poverty reduction program in Latin America, who has become an outspoken advocate. Along with considerations of justice and poverty alleviation, the case for direct distribution is also motivated by an irony: In many countries natural resources are more a curse than a blessing.

A great deal has been written about why this is the case. The reasons usually given are that natural resource receipts allow oppressive and autocratic governments to remain in power. They also facilitate and increase government corruption. And they aggravate income inequality, social disparities, and a sense of marginalization. In short, natural resource wealth, if badly handled, is likely to facilitate bad governance while also fueling social and economic tensions. Thus the term "natural resource curse," or "oil curse."

Direct cash distribution in Lebanon would go a long way toward avoiding these ill effects, and allow the country to benefit more effectively from the positive repercussions of its gas and oil sales.

Does direct distribution have to include all the income from a natural resource? Why not compromise and distribute only a portion of the revenues directly to citizens, and allow the government to keep the balance and use it, hopefully, for good purposes, such as improving national infrastructure and reducing government debt?

Indeed. But let us remember that as a result of the cash distributions, the Lebanese government would automatically receive additional fiscal revenue due to the rise in household income and spending. We should also bear in mind that any portion of revenues retained by the government would constitute a flat natural resource tax levied equally on the rich and poor, regardless of their total income. But if a compromise is necessary politically, the share of oil and gas revenue withheld by government should, in any event, be relatively limited.

To those who may object that direct cash distribution of Lebanon's oil and gas income would deprive the state of an instrument that makes it stronger, I would say the following: A stronger state is indeed a meritorious political goal. We want a strong state that enjoys full authority, a state that has the capability of doing its job, that has integrity, and that helps bring economic prosperity and social justice.

However, is it really the lack of money that is making the state weak and ineffective? Or is it the ineffectiveness of the state that has ensured that Lebanon's public finances have remained so weak? Would throwing easy money at the state be the right answer for resolving our national ills? Would state corruption decrease? Would state institutions suddenly begin to function normally? In fact, would the state be better at managing the income of Lebanese from the sale of natural resources than the Lebanese themselves?

These questions may seem premature given that it will be some time before oil and gas money flows our way. But many people are already pondering what this manna from heaven (or, rather, from the bottom of the sea) will mean for Lebanon. Some are rubbing their hands waiting for the goose to lay its golden egg. Others are hoping that the quick-fix of oil and gas revenue will obviate the need for public-sector reform and improved government. But what is most important is to guarantee that Lebanon's natural resources are a blessing, not a curse. And a direct cash distribution policy would do precisely that.

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