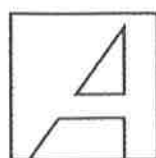
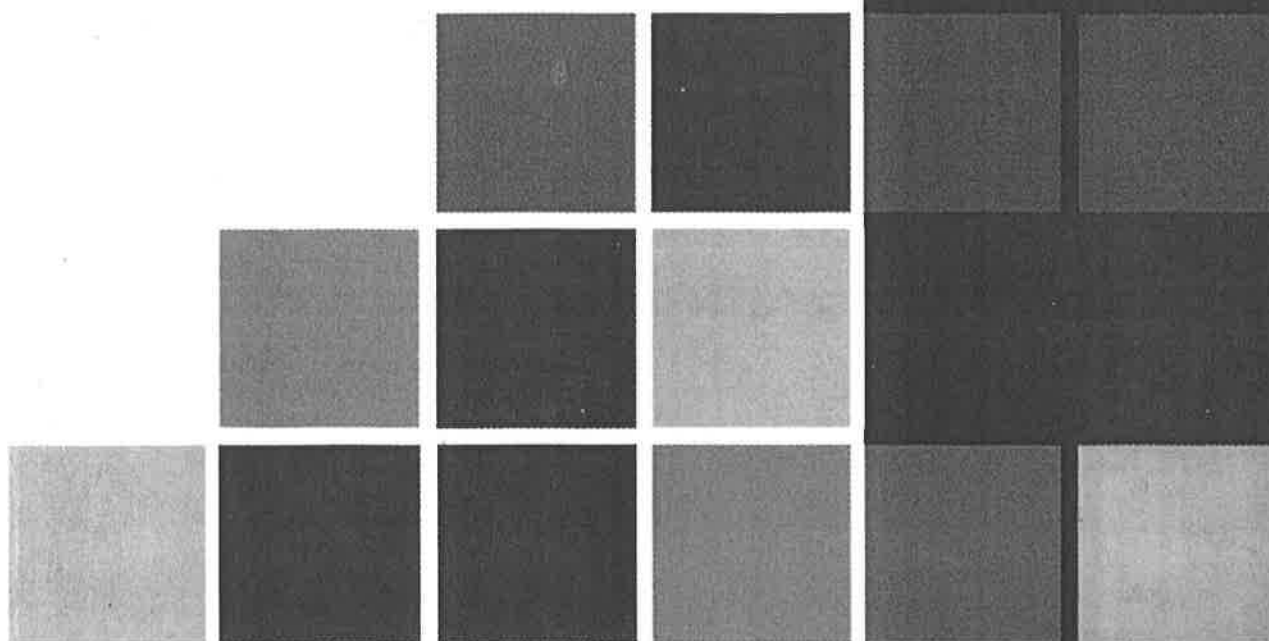


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Countervailing Power and Missing Institutions: The Political Economy of Resource Security

Sudipto Mundle

Discussions on resource security often focus on non-renewable energy sources, land, water, and other such resources that are recognised as being increasingly scarce. Securing the use of such resources for a few frequently entails the loss of resource security for others. This co-existence of winners and losers in most resource use choices, or what economists often refer to as negative externalities, are a well-known source of market failure—requiring public intervention and regulation. However, in the absence of appropriate political institutions, they can also be a source of governance failure. The first question that arises in this context is whether policy tools are available that can help provide resource security in a benign and equitable manner? The second question that needs to be addressed is about the political economic conditions that are necessary to ensure that such tools would in fact be applied if they were available, both within countries and globally?

The Compensation Principle

On the question of policy tools, two approaches have

been devised to deal with this problem. One approach is social cost benefit analysis, which provides a technique for comparing social gains and losses in deciding on a project. This approach is technically quite difficult to apply in the real world and it has never been seriously adopted. The second approach is the principle of compensation. Originally developed by Kaldor and Hicks, with some variations, this approach proposes that a project should be selected even when some stakeholders are adversely affected by it provided in principle they can be adequately compensated by those benefiting from the project. In other words, a project should be selected if the initial 'losers' can also be transformed into 'winners' through adequate compensation. The Kaldor-Hicks approach provided a practical means of comparing the gains of 'winners' and losses of 'losers' in choosing projects. However, it did not address the operational question of how such compensation was actually to be provided.

This has been done in the context of land allocation by Cernea. He has proposed that resettlement programmes should be designed as investment programmes that transform enforced resettlement programmes into ones that are attractive enough to be entirely voluntary. The principle of compensation is also being increasingly applied in a very different context of global public goods drawing on the concept of 'incremental cost'. This is the cost of the extra effort a country must make, over and above the effort it would make in its own national interest, to contribute to a global public good such as protection of the ozone layer, preservation of bio-diversity, or maintenance of climate stability.

Countervailing Power

The basic policy tools are therefore available for reaching

benign 'win-win' solutions for resource security choices which initially appear to entail winners and losers. This applies both to local contexts within countries as well as the global context. Some technical problems remain and the tools need further refinement. However, these issues are not insurmountable. The more challenging issues that need to be considered are the power alignments between competing stakeholder groups that would drive them towards seeking these benign solutions or, alternatively, the establishment of autonomous institutions with jurisdiction to mandate such solutions. To help appreciate the nature of this problem, Table 1 presents a matrix of possible outcomes between two groups of stakeholders in a project proposal: 'winners' who would gain some resource security if the project is undertaken, and 'losers' who would lose resource security. The possible outcomes are displayed in the table above under alternative power profiles of the two groups. The profiles themselves are defined in very simple stylized terms since they are presented only for illustrative purposes, with each group having either market (economic) power, voting (political) power, or both or no power.

This framework enables us to ask what would happen if a powerful group with a great deal of resources and influence at its command confronted a relatively small and powerless group of people who cannot compete or stand up to the economic power of the other group? In democratic societies where vote strength matters, the poor who may have no other resources can still acquire significant countervailing power through political mobilisation because they do have the strength of numbers, and this can lead to fair compensation outcomes. It is nevertheless critical to establish autonomous institutions with jurisdiction to decide on such resource security and compensation issues. This is because countervailing voter mobilisation

Table 1: Compensation Outcomes Matrix

Winners Losers	Market+ Voting Power	Market Power	Voting Power	No Power
Market+Voting Power	1. Fair Compensation	2. Excess Compensation	3. Excess compensation	4. No Project
Market Power	5. Under Compensation	6. Fair Compensation	7. Fair Compensation	8. No project
Voting Power	9. Under Compensation	10. Fair Compensation	11. Fair Compensation	12. No Project
No Power	13. No Compensation	14. No compensation	15. No Compensation	16. Fair Compensation

may not always be an option, or because countervailing power can lead to an impasse rather than a fair outcome. Also, when economic and political power are both concentrated in the same stakeholder group, political mobilisation can sometimes lead to perverse outcomes. Hence, autonomy of the regulatory institution is critical. Here autonomy refers to the autonomy of the regulatory institution vis-à-vis the relevant political authority and the economic powers that be.

Countervailing Power in a National Context

The governance context as well as the resource security issues that need to be resolved at the national or sub-national level are quite different from those at the global level and the two need to be discussed separately. In the national context, if there is no concentration of economic power or political power between competing stakeholder groups, a project with winners and losers would be implemented, and fair

compensation paid to the 'losers' provided the benefits yielded by the project are sufficient to adequately compensate them. If not, the project will be rejected. However, a project can also get rejected even though 'win-win' options exist if the appropriate regulatory institution is missing.

In this context, the recent case of the Singur agitation in West Bengal is quite instructive. Tata Motors, the automobile arm of one of India's largest conglomerates, had embarked on manufacturing the Nano, the cheapest car in the world, in West Bengal. The state government acquired land in Singur, a well-connected village in a very fertile area not far from the state capital, Kolkata, and made it available to the company. However, it has been widely reported that instead of acquiring the land voluntarily through advocacy and persuasion, the government acted in a heavy-handed manner, leading to a violent political confrontation with local groups. Ultimately, the company withdrew its project from Singur at considerable cost to itself, also entailing a great loss of employment and income opportunities for the local population and a major setback for the industrialisation programme of West Bengal.

The case demonstrates how a small group of farmers, apparently powerless, was nevertheless able to block the project because they were supported first by some civil society organisations and eminent personalities, and later by an opposition political party. It also demonstrates the importance of a free and democratic environment for such political mobilisation to work, including the wide publicity given to the agitation through the media and internet. It is unlikely that the strategy would have worked in authoritarian regimes. On the other hand, the case also shows how the callous arrogance of dominant stakeholders,

combined with political opportunism of a rival political party, can transform a win-win opportunity into a losing proposition for all. Had there been a suitable autonomous institution, independent of the local government but with adequate jurisdiction to apply principles of fair compensation, it could have prevented such a negative outcome

Countervailing Power in the Global Context

Application of the compensation principle for resource security in the global political economic context is even more difficult. In the absence of a global government or specialised institution with effective jurisdiction over resource security, the principles of fair compensation simply fall by the way side. These issues are dealt with through bargaining between independent nation states. Such bargains reflect the economic power of competing nation states, which is also often used to mobilise voting power in the United Nations and other such multilateral institutions. Small powerless countries are unable to protect their interests under these conditions. Their best strategy is to form coalitions to enhance their bargaining power. However, such coalitions are not easy to establish and rarely effective since small nation-states are also often competing with each other for support and assistance from the powerful nation-states.

Another major problem with these bargaining processes is that negotiations between nation states with countervailing power may lead to fair outcomes, but they could equally result in failed outcomes—as seen recently in the failure of the Doha round of global trade negotiations. Another example, more directly related to resource security, is the Kyoto Protocol. The introduction of tradable pollution permits is intrinsically an excellent market-based innovation. However, so far

it has not been possible to reach agreement on an equitable basis for assigning global pollution rights.

Conclusion

Providing resource security for one group of stakeholders frequently entails loss of some resource security for another group of stakeholders. In such situations providing resource security in a benign and equitable manner can be challenging. The compensation principle as operationalised by Cernea offers a sound approach for resolving such conflicts of interest. A policy or project should be adopted if and only if it can generate sufficient net benefits that will be invested in ensuring that the 'losers' are also better off, that is, win-win choices under which the 'losers' also become winners. Whether or not such an approach will be adopted depends on the governance context, the structure of power between winners and losers, and the institutions in place.

In situations where some stakeholders have dominant economic or political power compared to others, political mobilisation to build countervailing power can be helpful, but it can also be insufficient or dysfunctional. It would be useful to establish autonomous institutions with jurisdiction over resource security issues that can protect the interest of stakeholders who do not have either economic power or political power. This may be feasible at the local level within countries. However, it may be quite challenging to create such an institution at the global level in the absence of a global government.