Privatization CP

CP Text –

[Insert aff actors] should privatize resource extraction to domestic owners. I reserve the right to clarify.

Competition – a) I compete since I still advocate for doing resource extraction, I just do it in a different way than most negs and b) I compete through net benefits since I am still winning reasons why you shouldn’t do the aff and you can’t do both at the same time.

Net Benefits

First, privatization to domestic owners helps to solve the resource curse since it is mutually beneficial for private owners and the state to work together which promotes transparent institutions and is empirically proven in Russia. Weinthal and Luong:

An Alternative Solution to Managing Mineral Wealth” by Erika Weinthal [associate professor of environmental policy in the Nicholas School of the Environment and Earth Sciences at Duke University] and Pauline Jones Luong [associate professor in the Department of Political Science at Brown University]. Issue: March 2006. Journal: Perspectives on Politics

By taking resource rents out of the state's direct control, **privatization to domestic owners** simultaneously **fosters the conditions under which governments have an incentive to build strong fiscal and regulatory institutions and creates a new set of societal actors with the potential to demand these institutions.** **Because** these **private owners benefit directly from the production and export of the country's mineral reserves, they have a vested interest in securing** both their **property rights and a stable revenue stream** as well as the means to bring state actors to the bargaining table. At the same time, **because the state has less control over how these resources are extracted and utilized, it is more likely to invest in institution building that enables it to extract revenue from private owners**, regulate the private sector, and generate other sources of revenue outside the natural resource sector. **Thus, privatization to domestic actors offers an alternative** path out of **[to] the "resource curse**" **because it creates an incentive for both state and societal actors to** bargain over and eventually **establish the formal rules of the game**. Russia provides a powerful illustration of this proposition. In the mid-1990s, Russia began privatizing its oil sector to domestic investors but retained state control over the gas sector.106 Since then, the degree of reform and economic promise in these two leading sectors has diverged significantly. By the end of 1990s, the majority of the oil industry was privatized to multiple owners, substantially deregulated, and had undergone significant internal restructuring. **Under private ownership, the Russian oil industry has successfully expanded production and seen its net profits jump to $25 billion in 2003**.107 In addition, **the domestic owners that emerged** from this process **have** increasingly **pressured the** Russian **government** not only to support greater liberalization within the energy sector itself, but also **to develop institutions outside the energy sector to promote greater transparency and fiscal stability**. **The gas sector,** in contrast, continues to be dominated by the primarily state-owned monopoly Gazprom, which has resisted any structural reform**, [has] amassed substantial foreign debt, and remained chronically undercapitalized, translating into direct losses to the Russian economy** and indirect losses to the institutional capacity of the Russian state.

Second, private companies’ waste less as they compensate based on performance leading to more efficient and effective institutions. Weinthal and Luong 2:

An Alternative Solution to Managing Mineral Wealth” by Erika Weinthal [associate professor of environmental policy in the Nicholas School of the Environment and Earth Sciences at Duke University] and Pauline Jones Luong [associate professor in the Department of Political Science at Brown University]. Issue: March 2006. Journal: Perspectives on Politics

**Under private domestic ownership**, in contrast, **the boundary between** the main actors-**state elites and domestic owners-is clear** because there is a clearly identifiable principle. **Because the control structure is clearly defined and there are objective criteria for evaluating managerial performance, agents do not conflate administrative tasks with political goals**. Rather, **they are punished and rewarded based on their ability**, for example, **to maximize efficiency**, increase profits and market capitalization, and expand market share. Their relative power is symmetrical because each has an independent source of authority over the other. **Domestic owners possess the rights to revenue from mineral exploitation, and** thus, **are a critical source of tax revenue** for the state. **State elites possess the authority to revoke property rights and reduce revenue streams through demanding excessive taxation**. In short, **they need each other not just to survive, but also to thrive**. Clear boundaries increase transaction and monitoring costs by simultaneously making it more difficult for state elites to extract revenue and for private owners to hide their income. During Yeltsin's presidency (1991-98), for example, the government was forced to either confiscate revenue from the oil companies or to engage in continuous bargaining over revenue burdens.118 Also during this period, the Russian oil companies (hereafter, ROCs) devised several legal and semi-legal schemes to reduce their profitability on paper that eventually proved too costly-not only because it required expending effort and finances on nonproductive activities but also because it earned them a lower stock market valuation.119 **Clear boundaries also make it less rational to steal**. Unlike state companies, **in private companies managers are compensated based on performance and the owners have a direct claim to profits**, and thus, both owners and managers are primarily concerned with profitability. Owners, including shareholders with a minority stake (that is, 25 percent of the shares)120--also have a vested interest in ensuring that both their managers and employees do not steal or otherwise jeopardize the company's financial health. When these minority shareholders are multinational corporations (MNCs), moreover, they can also provide further defense against state predation because they carry the added weight of access to capital, international arbitration, and foreign governments to both deter and challenge such practices. Nor can private companies necessarily rely on the state to bail them out if they are operating at a loss. **Hard budget constraints and the fear of bankruptcy** thus **reinforce the desire of owners and managers to run the company efficiently. As a result, they are unlikely to invest in unproductive public work projects** or provide subsidies-tasks that a government often demands of state-owned companies to promote its own social and political objectives. **High transaction and monitoring costs, therefore, promote mutual incentives for building stable, effective, and far-reaching institutions**-that is, strong institution.