Why The Bottom Is Probably About To Fall Out Of ISIS' Vast Oil Welfare State

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The Islamic State's use of oil to fund welfare programs will cause big problems in the terror group's future based on the experience of other petro-states.

Aside from all the other problems ISIS faces — American and Russian airstrikes, general malaise of people living under their leadership, and Kurdish militias — oil economies breed their own internal problems. In short, the Islamic State's biggest problem could soon be simple corruption, which petro-states often suffer from after using oil revenue to buy their citizens' approval.

ISIS makes $50 million a month from selling crude oil and spends the money on a vast welfare state. The group sells crude oil to smugglers at massively discounted prices of around $35 per barrel, which is much cheaper than the $50 a barrel available on international markets in the region. The group likely extracts up to 30,000 barrels of oil per day, which it then sells through Turkish middlemen to the world. This is after a large scale American air campaign that specifically targeted ISIS' ability to transport, refine, and sell oil. The Islamic State is currently launching a new offensive in the Homs province of Syria.

"We are distributing zakat [charity or alms] on the money we are gaining from oil. We know how catastrophic things are for our people in Raqqa [ISIS' capital], and that poverty is on the rise. We are trying to give job opportunities to the unemployed, by employing them in the administrations and institutions that the state established to serve Muslims," said Abu Samer, the ISIS official in charge of redistribution in Raqqa.

Oil sales are one of the group's largest sources of revenue and proceeds go directly into the terrorist group's re-distributive welfare state. Every person who pledges allegiance to ISIS receives a cash benefit. The terror group openly claims that this re-distribution of wealth is an attempt to shore up support.

In its capital of Raqqa, ISIS directly provides social services including food kitchens, state-run aided orphanages, healthcare, and vaccination campaigns, all of which feature heavily in the group's propaganda. The terrorist group also operates schools, though these institutions are not permitted to teach science, history, civics, physical education, or geography classes. The group is even hiring social workers.

Such spending isn't uncommon for oil rich nations, but it rarely ends well.

Revenues from oil are inherently unstable and tend to cause epidemics of governmental corruption. Countries which suffer from this "resource curse" tend to grow much more slowly economically over time as putting oil revenues into a welfare state is much more attractive politically than reinvesting the wealth to boost economic performance. From 1965 to 1998, the GDP per capita of oil exporting countries decreased on average by 1.3 percent per year, while in the rest of the developing world, it grew by an average of 2.2 percent per year.

"The aspect of the resource curse we're most likely to see in ISIS territory is corruption. That's especially true given their unofficial system of oil extraction and trade that seems to have developed among locals. If ISIS were left to develop into a normal state, we'd certainly expect to see other aspects of the resource curse like an oil-dependent, underdeveloped economy. But the limited evidence we have suggests that ISIS is still taxing heavily in areas it controls to fund its war effort, limiting the overall impact of oil on the Islamic State's fledgling institutions." wrote Emma Ashford, Cato Institute Research Fellow and expert on the politics of petrostates, in an email to The Daily Caller News Foundation.

The best recent example of this is Venezuela, which is on the verge of total economic and social collapse. The rate of inflation in Venezuela is 808 percent according to Forbes and the country had the second highest murder rate in the world. The country is now essentially bankrupt, has massive shortages of every product, and is even being forced to import oil.