

Iraq doesn't have to become a cliché of oil-wealth excess

By Bruce M. Everett

September 16, 2003

WASHINGTON – A growing chorus of human rights and environmental activists continues to denounce petroleum development as a modern evil. A recent report by the British group Christian Aid claims, "Pumping oil has led to greater poverty, a high likelihood of war and massive corruption - rather than bringing peace, wealth and prosperity for poor people."

But will the "oil curse," as it is often called, frustrate plans for a free, prosperous Iraq? Not if Iraqis make a simple decision: Put oil revenues directly into the hands of the citizenry.

Seeing oil as a curse is understandable. Roughly 30 developing countries, including the 11 members of OPEC, rely heavily on oil exports for revenue. Since the oil crisis of the early 1970s, these countries have spent more than \$4 trillion in oil revenues with little if any lasting benefit for ordinary people. In the worst cases, like Nigeria, Angola, Burma, and the Sudan, oil cash seems only to fuel civil wars and human rights abuses.

But the problem is mismanagement, not the money itself. Most oil exporting countries use an industry structure guaranteed to fail: Oil revenues are controlled by the state and a powerful national oil company manages the industry. Nationalization of the oil industry began in Mexico in 1938 and became part and parcel of the populist, anticolonial reaction that swept the third world during the '70s. The intent was to replace the major international companies like ExxonMobil, Shell, British Petroleum, and others with state institutions. OPEC is more than a cartel. It's a powerful statement of third-world socialism.

Like socialism in Cuba, North Korea, Vietnam, and the former Soviet Union, the OPEC model has utterly failed its citizens for several reasons.

First, government control over a country's economy allows politicians to trade economic advantages for political loyalty. Both Saddam Hussein and the Soviets were masters at this game. Second, concentrating massive cash flows in the hands of politicians creates the perfect vehicle for theft and corruption.

Third - and most important - no government, however honest and well-meaning, has a clue how to manage an economy. In the West, we don't rely on government to allocate capital. Entrepreneurs who know what the economy needs and can judge risks and benefits make investment decisions in a free market.

Clearly, Iraq's potential oil income is huge. Iraq's oil reserves are 112.5 billion barrels, second only to Saudi Arabia's 259 billion barrels. Yet 30 years of neglect and mismanagement have left the industry in desperate need of investment capital and technology.

So what should Iraq do?

The physical security of the oil infrastructure is the obvious first step. Once the system is safe from attack, Iraqis should look to the free market for solutions. Avoid the temptation to reestablish a national oil company, even if its shares are held by Iraqi citizens. At best, national oil companies are inefficient. At worst, they are bloated money sinks.

Iraqis should seek private capital to rebuild and operate the oil industry. Does that mean giving foreigners revenue and control? Absolutely not. Britain is a major oil producer with no national oil company. Private companies - such as ExxonMobil, Shell, and BP - take the risks, but the British government retains ownership of petroleum resources, controls the pace of development, sets safety and environmental standards, and receives the lion's share of revenues through taxes and royalties.

Iraqi oil is much less expensive to produce and, with a sound system of taxes and royalties, the government could capture most of the revenue. Oil exports of 2 million barrels per day at a price of \$25/barrel would generate about \$15 billion annually. Why reinvest this money in oil development when private companies are willing to provide risk capital along with their technology and know-how? Iraq could make better use of the money.

Some, including US Administrator Paul Bremer, propose using the Alaskan system, with oil revenues placed in a trust fund that pays dividends to Alaskans. But a trust fund will only create more opportunities for mischief and corruption. Peruvian economist Hernando de Soto, president of the Institute for Liberty and Democracy in Lima, argues that the major constraint on economic growth for the third world is denial of property rights and suppression of the entrepreneurial talents of ordinary people. According to De Soto's logic, if oil money truly belongs to the Iraqi people, give it to them.

Iraq should distribute its oil revenues directly to its 25 million citizens, with each individual receiving \$600 to \$700 per year or \$3,000 to \$3,500 for a family of five. Beyond supporting basic human needs, much of this cash would be invested in small businesses, services, agriculture, and the other ingredients of a vibrant economy - without political strings.

The enduring lesson of US history is that people should be trusted not only with the political life of the nation but with its economic life as well. The Iraqi people are entitled to the same trust.

• *Bruce M. Everett was regional manager for the Middle East for ExxonMobil's natural gas department 1992-1997. He is now an adjunct associate professor at the Fletcher School at Tufts University near Boston.*
