Oil Rents, Political and Military Policies, and the Fallout
Implications for the MENA oil economies

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Editor’s note: This chapter was written before the wave of popular uprisings beginning with those in Tunisia began sweeping through the MENA region. Through identifying many of the region’s underlying institutional impediments to development and human progress it foretells many of the momentous events that will shape the region for years to come.

The fallout from economic rents associated with petroleum and gas depletion, or indeed with the depletion of any valuable exhaustible resource, has occupied academics for many years—the Dutch Disease, the curse of oil, corruption, conflicts, civil wars and foreign wars, under-development, foreign interference, dictatorships, oppression and more. A quick glance at oil-rich countries does not convey a pretty picture of the presumed “blessings” of oil. The exceptions to what appear to be dismal results seem to be Canada, the USA, the United Kingdom and Norway—countries that were already developed and had good institutions when large oil and gas deposits were discovered. What are the lessons? What are the political and military fallouts? What can be done to diminish the negative and enhance the positive for oil-rich developing countries?

Oil and institutions

The nexus of oil and gas reserves and institutions, especially the rule of law, is at the heart of the question of whether oil reserves have a positive or negative effect on oil-rich countries. A glance at countries with significant reserves of oil reveals one undeniable fact. Countries that have benefited—achieved enhanced economic development and growth—from significant oil and gas reserves are countries that had good institutions and legal traditions before the discovery of oil and gas reserves. The reasoning behind this conclusion is intuitive, if not obvious. If countries have good institutions, including legal institutions and the rule of law, the discovery of reserves on public lands and offshore would either lead to the competitive leasing of these rights for development by the private sector or development by the state; and no matter whether public or private development the proceeds would be used to benefit all generations of citizens. That is, oil and gas reserves on public lands and offshore would be leased and exploited in a way that maximizes the public benefit for all generations. In the absence of good institutions, much of the oil revenue would be absconded or leases would be underpriced, robbing current and future...
generations of their birthright. Later, as the oil comes on line, good institutions would enable the state to collect royalties (if called for under lease arrangements) and to assess and collect taxes, while assessments would be low and royalties and taxes would go uncollected in the absence of effective institutions. Even with the availability of revenues from oil sales, lease payments, royalties and taxes, the associated benefit will depend on how productively the government uses the resources.

The quality of institutions may even have implications for oil that is discovered on private lands, in countries that uphold private ownership of exhaustible resources. Although the oil rents accrue to private citizens, private citizens are much more likely to invest the proceeds domestically if the quality of institutions is high, the economic and business environment is supportive, property rights are transparent and enforced and private sector assets are protected. Where the quality of institutions is poor, owners of oil reserves would be more likely to hide the proceeds in foreign bank accounts, with little benefit to the country where the oil was discovered (with more on this below).

In most countries, especially developing countries, exhaustible resources are the property of the state and, in turn, the heritage of current and future generations. The state has the responsibility to preserve equal benefits for all generations. Economists, most eloquently Robert Solow, have long recognized the special characteristics of exhaustible resources. That is, exhaustible resources are part of society’s stock of capital and their depletion should not be used to finance consumption. Instead, commensurate capital of another form should replace the depletion of exhaustible resources for the benefit of current and future generations. In the case of Islamic communities, where much of the world’s oil resides, this must be done in such a way that all citizens—current and future generations, rulers and the ruled alike—benefit equally as required by Islam; just as societies must take care of the air and water for their own lives and for all who follow them, they must take care of their exhaustible resources for the benefit of all generations.

Again, how effectively and efficiently this is done depends on the quality of institutions.

While it may appear from the above that the exploitation of oil reserves in countries that lack good institutions may afford little benefit, the fact is that oil may actually impact development and growth negatively, thus reducing development below that of comparable countries that do not have oil. This would confirm the notion of the “curse” of oil. Again, the reasons are intuitive and are supported by facts. The discovery of oil reserves in countries that are developing, that lack checks and balances and effective institutions, gives added incentive to those in power to solidify their position and to be repressive. Their goal would be to capture as much as possible of the income from oil for their own personal benefit. Given this goal, the last thing the ruling élite would want is to establish effective institutions. The rulers do not need a productive economy to generate output and revenues to finance their lavish lifestyle because oil does this and more. As a result, what might be considered the foundational basis of development—effective institutions—is turned upside down, because effective institutions would reduce the personal enrichment of rulers. Instead of nurturing effective institutions, the goal becomes the prevention of good institutions with all the attendant negative fallouts. Once again, we see the “curse” of oil.

Most, if not all, of the facets and the fallouts of the oil curse have been on display during the “Arab Spring” or “Arab Awakening” of early 2011 in the Middle East and North Africa that was sparked by the self-immolation of a vegetable vendor in Tunisia. These Muslim countries had been under oppressive rule. All of the countries with abundant oil reserves, all Arab with the exception of Iran, were under harsh unrepresentative rule; the ruling élites had benefited beyond belief from the exploitation of oil reserves with vast fortunes squirreled away abroad, while the majority of the citizens lived under varied degrees of deprivation; economic
performance had been below that of developing countries that did not have abundant oil reserves; military expenditures and arms imports as a percentage of GDP were high; and all of the countries were plagued by corrupt and ineffective institutions. The major demand of protesters in these countries could only be addressed with better institutions and representative governance.

Developing oil-rich countries have suffered, and continue to suffer, from inadequate and ineffective institutions. Institutions are essentially formal and operate under enforceable rules. Interactions become more predictable when they are subject to rules, thus effective institutions lead to fewer ambiguities in business and trade. Once rules are in place, they then allow co-ordination among individuals who now share a belief in those rules and their outcome. It is the ability of rules to reduce ambiguity in the behavior of others that allows co-ordination in human interaction and a subsequent emergence of collective action. More specifically, the institutional structure of a society is composed of constitutions, laws and rules that govern the society, its government, finances, economy and politics; written rules, codes and agreements govern contractual relations and exchange and trade relationships; and commonly-shared beliefs, social norms and codes govern human behavior. The clarity of rules, of social norms and enforcement characteristics are important to the degree of compliance exhibited by the members of a society. The higher the degree of rule compliance, the more stable the social order and the lower the transaction costs in the society. For example, social norms that prescribe trustworthiness and co-operation have a significant impact on encouraging collective action and co-ordination by inducing people to do the things they would not do without the relevant social norms. When countries with ineffective institutions discover oil, the prevention of adequate institutions and all that goes with it (as described above), becomes the all-important goal for those in power and those who hope to benefit from rent-seeking activities.

Economists know that ineffective institutional structures result in poor economic performance. The absence of good institutional structures usually reflects an entrenched belief system that cannot change because changes would pose a threat to existing political, religious or business leaders. Necessary changes in the institutional structure may be difficult to implement because social norms are often inflexible and their enforcement characteristics are slow to respond to attempts for change.

A major conclusion of economic research has been that without adequate institutional structure, policies to improve economic performance—such as creating an incentive structure for the private sector—would fail to lead to rapid and sustainable economic development and growth. Even a cursory glance across countries that are richly endowed with oil would confirm the sorry state of their institutional infrastructure. For the most part, it is corrupt families and governments, with little or no legitimacy, who rule these countries. Such rulers eschew effective institutions that promote the rule of law and encourage compliance, in favor of their own personal control of economic opportunities. As a result, the oil-rich developing countries exhibit about the highest degree of corruption (as revealed by most available corruption indicators), and thus economic and financial uncertainty, of any region in the world. As is to be expected, this corruption extracts a heavy price by reducing economic and political growth and development.

**Politically-driven policies**

The quest to maintain and consolidate power and to prevent the establishment of effective institutions in oil-rich developing countries has, in turn, led to the adoption of policies that undermine economic, political and social growth and development.
Short-sighted economic policies

The quest of rulers and their supporters to maximize personal gains from oil rents invariably leads to economic policies that support their short-term objectives, at the expense of sustained economic growth and development. To keep the population at large sufficiently satisfied not to instigate unrest, rulers and governments are motivated to maintain a high level of domestic expenditure even if economic absorption is limited, bottlenecks exist and waste is high. During the protest in 2011, perhaps the most vivid example of this practice was the announcement of an additional expenditure of over US$50bn by the government in Saudi Arabia to welcome King Abdullah home after medical recuperation abroad. This time-tested policy may be less effective in the aftermath of the unprecedented protests across the region.

Invariably, rapid and significant increases in government expenditures fuel inflation, with the price of non-tradable goods and services—housing, land, healthcare and the like—going up faster than that of tradables, which can be readily imported; this then results in an appreciation of the real exchange rate. Higher inflation with a fixed or managed exchange rate would result in an overvalued currency, adversely affecting the development of non-oil exports. Similarly, a rise in the price of non-tradables relative to tradables encourages investment in and production of non-tradables to the detriment of non-oil exports. The end result is what has been coined the “Dutch Disease.” The policy response to counter the Dutch Disease and its adverse impact on the development of non-oil exports is to reduce domestic expenditures and to give production subsidies for non-oil exports in areas where the country enjoys a long-term comparative advantage.

Although the indicated policies to combat the Dutch Disease are clear, they may be politically difficult to adopt. Rulers and government officials are instead motivated to afford the citizenry some visible and direct benefits from the exploitation of oil. Thus they invariably increase domestic expenditures and give consumer subsidies for food products, gasoline, electricity and the like. In some countries in the Persian Gulf, consumer subsidies have at times amounted to more than 25% of GDP, encouraging waste at the expense of productive investment and sustained economic growth and development.

High level of military expenditures

In most, if not all, of the oil-rich economies of the Middle East and North Africa, rulers and governments enjoy very little, if any, legitimacy. They maintain power and clamp down on dissent through repressive use of security measures, the police and armed forces. The harsh treatment of protestors in the aftermath of the disputed presidential elections of 2009 in Iran and during the uprisings of 2011 in Libya and Bahrain are vivid examples of oppressive rule in these countries. Such forces contribute nothing to economic output and are a drain on depletable and limited resources. Moreover, because members of these security and armed forces enjoy enhanced access to oil rents and great wealth, they draw some of the most educated and talented individuals into the ranks of the security sector and the military.

An aggressive military in turn demands a high level of military expenditures and sophisticated arms imports. The Persian Gulf is arguably the most militarized region in the world and the biggest importer of arms; for instance, the Persian Gulf’s per head arms imports, the highest in the world, have been about seven times the world average during the period between 1988 and 2005. These expenditures are a reflection of the importance the rulers place on their military and of how much they rely on the military’s support to stay in power. In addition, military expenditures, especially arms imports, afford the military and rulers a lucrative channel for...
collecting large bribes from suppliers of arms, bribes that are simply tagged onto the price. Sophisticated arms and a well-equipped military invariably promote internal repression and spark conflict in countries that lack effective domestic institutions. High levels of military expenditures and arms imports, and frequent conflicts and wars are an integral component of the Persian Gulf landscape, a region with about 65% of the world’s oil and gas reserves.

Conflicts and wars can exact an unimaginable toll. For instance, the Iran-Iraq War is estimated to have had a combined cost of about $1.4 trillion for the two countries (and an even higher cost for the wider region), with a cost of $790bn for Iran and $555bn for Iraq (excluding the cost of human life to each country) or roughly 160% of each country’s oil revenues over the period between 1975 and 2000. Conflicts and wars are not restricted to those between countries in the region; Kuwait was liberated by a coalition of foreign forces as they deposed Saddam Hussein.

**Conflict with oil-rich countries in the region**

Oil-rich countries are not all equal. Some oil-rich countries, such as Nigeria, have low oil reserves-per-head ratios, while others, such as the United Arab Emirates and Qatar (natural gas), have ratios that are in the stratosphere. Among the major oil exporters in the Persian Gulf region, the ranking of the highest to the lowest oil/gas reserves-per-head ratios are: Qatar, the United Arab Emirates, Kuwait, Saudi Arabia, Iraq and Iran. The high per head reserve ratio countries present a “tempting target.” Kuwait knows this only too well. Sadly, Kuwait was the first to be invaded, but it won’t be the last. If Saddam Hussein had managed to occupy and absorb Kuwait into Iraq, the return on his military expenditures would have been impressive! Such easy targets are especially tempting for countries that have failed economically, have large external debts and are looking for a quick way to restore domestic confidence, prosperity and support.

Another source of future conflict, and one that apparently in part precipitated Saddam Hussein’s invasion of Kuwait are oil and gas fields that straddle the border of two countries. The financial implications can be daunting. For example, although today Iran and Iraq enjoy good relations, a conflict could arise from the vast Majnoon oil field and others that may be discovered in the future that straddle their border.

Cognizant of these dangers, the weak and dictatorial rulers turn increasingly to foreign supporters for protection, leading to ever higher military expenditures, greater arms imports (for pre-positioning to be used by the military or their backers in case of conflict and as a form of payback for protection) and greater economic incentives (such as large contracts and gifts to influential companies and individuals in the countries that back their regime). This pattern is visible in the Persian Gulf. Many former senior US government officials, including even presidents, receive direct and indirect financial contributions from weak oil-rich developing countries.

**Solicitation of foreign support**

In their quest to hold a tight grip on power, illegitimate rulers, besides relying on their intelligence, police and military forces, also turn to foreign powers for support. The major powers are happy to support “friendly” dictators who sit atop vast oil and gas reserves. Illegitimate rulers are weaker, more malleable, more easily manipulated and more vulnerable than legitimate democratic governments with checks and balances. Weak rulers also afford the major powers a lucrative market for their exports, including the export of arms.
The nature of foreign support for oil-rich “friendly” dictators was clearly visible during the Arab uprisings in 2011. The USA and other Western powers backed the protestors in Tunisia, Egypt and Libya (“unfriendly” dictator), but were mute when it came to protests in the oil rich Persian Gulf countries of Kuwait, Saudi Arabia and Bahrain (supported by Saudi forces).

External financing

Everything being equal, oil wealth increases a country’s borrowing capacity. Illegitimate rulers, especially those who want to secure more funds for themselves or for their cronies, or rulers who have run deficits, are likely to turn to external sources of funding when faced with lower oil revenues but still needing revenues to keep the lid on dissent. Bankers are invariably happy to lend them money, expecting higher oil prices, higher oil revenues and an excellent ability to service debt. However, if wasted, as has usually been the case, this borrowing becomes an added burden on the general citizenry and on future generations. In fact, illegitimate rulers, who are recognized by the major powers and who are allowed to borrow vast sums on behalf of their countries, end up wasting or stealing the proceeds with ominous implications for future generations.

Foreign interference and meddling

While we have mentioned the increased likelihood that illegitimate rulers will turn to the major powers for protection and support in order to hold onto power, we should also stress that this is a two-way street. Foreign powers have much more incentive to meddle in the affairs of an oil-rich country than in those of a non oil-rich country. But foreign meddling invariably has attendant costs for a country.

Given the prevailing global energy outlook, foreign powers increasingly view access to oil (and gas) reserves as a critically important area of competition, especially among the USA, the EU, China, Russia and India. Imagine how the USA could cripple Chinese ambitions if it controlled access to all Persian Gulf oil and gas reserves? China’s continued rapid economic growth would be undermined, the country would not be in a position to project global military power, and Chinese ambitions would be contained. But with competition for access to oil and gas reserves, there would be negative fallouts. The USA, acting in its own national interests, may have been persuaded that the “best” form of governance for its client states was authoritarian rule and maintenance of the status quo with continued suppression of the quest for effective institutions, including the rule of law and checks and balances. This approach has, in turn, undermined economic, social and political progress in oil-rich countries.

More pointedly, oil-rich countries could become the focus of rivalry among major powers, with each power supporting a different group and inciting instability and conflict. Again, economic, social and political progress in the target countries would suffer.

In the aftermath of the protests of 2011, however, things may have to be different. Yet at the time of writing in May of 2011, it appeared that the USA could not jettison its old ways, at least when it came to dealing with the rich oil monarchies of the Persian Gulf. Although the USA supported protestors all over the region, it was mute when it came to Saudi Arabia and the other member countries of the Gulf Co-operation Council. However, a continuation of the old US approach may be doomed if uprisings are successful in the rest of the region.

Prior to the protests of 2011, the possibility of effective institutions, democratic rule, sound economic policies and, in turn, economic, political and social development and growth,
described above, may have been simply wild dreams in these countries. But in 2011, there is newfound hope for a turnaround.

**The best option for a turnaround**

To achieve a turnaround in their political, social and economic development, oil-rich countries would have to overcome a number of monumental hurdles and adopt all of the following: effective institutions, policies to dramatically reduce corruption, measures to remove the incentive for rulers and average citizens to engage in rent-seeking activities, consistent economic policies that maintain a constant capital stock associated with oil depletion, and policies that guarantee equal benefits from oil exploitation to current and future generations of citizens. These are not easy steps for humans with all the usual human frailties.

The depletion of oil should result in an increase in non-oil capital stock to compensate for the depletion of oil capital stock, maintaining a constant total capital stock. This would indicate a higher than normal savings rate. But there is more. The major oil-exporting countries must diversify their sources of economic output. They must encourage export diversification to stabilize government revenues, to diversify the government’s sources of revenues, reduce the overbearing role of the public sector, and protect intergenerational equity in the depletion of oil and gas resources.

Export diversification requires sound exchange rate policies, limited production (not input) subsidies, access to foreign markets and other supportive policies. In the case of exchange rate policies, oil exporters face a particular problem, namely, the undesirable appreciation of their real exchange rate, which in turn discourages the development of a diversified and competitive export base. As mentioned earlier, governments can counter such a real exchange rate appreciation by reducing government expenditures, giving production subsidies to favor tradables and therefore exports, or an appropriate combination of the two.5 Others argue that there are more fundamental problems than the Dutch Disease that mitigate the development of a vibrant private and export sector. Some make the case that in many oil-rich economies the oil sector overwhelms the broader economy.6 Given the magnitude of oil wealth and its potential rewards, businessmen find it more worth their while to devote their energies to capturing even a small fraction of the oil rent as opposed to engaging in straightforward entrepreneurial activities. Some economists argue that since oil revenues are volatile, and since volatility does not lead to growth, oil therefore hampers private sector growth and diversification.7 Others argue that a large oil sector promotes specialization in non-tradables, not because of the traditional Dutch Disease, but because of the impact of financial market imperfections on specialization.8

While production and export diversification away from oil are necessary, so is government revenue stabilization and diversification. In most of the oil-rich developing countries, oil (gas) exports have provided the bulk of export receipts and of government revenues and these have fluctuated considerably from year to year because of the volatility of oil prices. Relatively stable fiscal revenues are essential for stable macroeconomic management, for sustained economic growth and, as a result, for employment opportunities for citizens. Countries that achieve sustained long-term growth experience less volatility in growth on average:9

Developing countries experience a year of negative per capita growth roughly once every three years—whereas in East Asia, the average is one-half that rate and, in OECD countries, one-third that rate.
To stabilize oil revenues, countries can, and have, adopted some form of oil stabilization fund. A portion of revenues are placed into the fund in a year in which oil revenues and prices are expected to be above average, and the monies can be “theoretically” drawn down when revenues and prices fall below the average. On the other hand, an oil-exporting country could hedge its exposure to oil price volatility through the futures market. While such funds and hedging may be used to stabilize available oil revenues from year to year, they do not diversify the basic source of government revenues. Government revenue diversification ultimately requires a healthy and growing economy with an effective income tax system.

The notion of equity and social justice is of paramount importance for countries with large oil and gas resources. Economists have long ago addressed this issue, at least on the theoretical level:

The finite pool of resources (I have excluded full recycling) should be used up optimally according to the general rules that govern the optimal use of reproducible assets. In particular, earlier generations are entitled to draw down the pool (optimally, of course!) so long as they add (optimally, of course!) to the stock of reproducible capital.

Note that Solow concludes that exhaustible resources should be optimally drawn down and replaced by reproducible capital (for future output) optimally for future generations. What if governments cannot, or will not, optimally add to the stock of reproducible capital? The clear need is to find an alternative to Solow’s prescribed optimal draw down and optimal addition to reproducible capital. A viable option is to take all oil revenues away from the government and create a fund to address issues of equity. Additionally, this may be the only way in which the interests of future generations can be preserved. For instance, if governments were to use oil revenues to build roads and bridges, it is not at all evident that future generation of citizens would receive the same benefit as current generations. Moreover, as the government spends current oil revenues, some citizens will benefit more than others. For instance, those who own construction companies and build the roads and bridges will benefit more than the rest of the populace. Possibly the only feasible way to preserve equity is to make the same (real purchasing power) direct cash transfers to all citizens, in this and future generations.

For any proposition regarding the management of exhaustible resources to be effective in Muslim countries, it must be compatible with basic Islamic teachings on the ownership and extraction of depletable resources. Absolute ownership (by law) belongs to God. All members of society have an equal right to use and enjoy the advantages and benefits of communal property:

Seek instead, by means of what God has granted thee, (the good of) the life to come, share in this world; and do good (unto others) as God has done good unto thee: and seek not to spread corruption on earth: for, verily, God does not love the spreaders of corruption.

(Quran 28:77)

The matter of equality is further stressed in the context of Islamic economics, which is unique in its consideration that the distribution of resources is the main economic issue to be addressed by society. When it comes to resources below the ground, Islam is unambiguous. Anything under the ground belongs to society at large; that is, all citizens should have an equal share in the fruit of what is under the land; this incorporates both current and all future generations. Thus Solow’s prescription is exactly what should be followed in these countries, with one important additional
requirement. Solow’s concern is intergenerational equity. In Islam, it is generational as well as intergenerational equity that matters.

The task for these governments is clear but difficult. First, governments must take control of all exhaustible deposits. Second, governments must make sure that they do not waste depleting mineral resources, because they are the birthright of all citizens and must be used productively. Third, as minerals are depleted, governments must make sure that they use their revenues in such a way that all citizens today and for all future time receive similar real benefits. Below we argue that all of this can be achieved through the creation of a “comprehensive” oil fund for all generations.

The best option: a “comprehensive intergenerational oil fund”

Citizens can be regarded as stakeholders in the collective ownership of natural resources that are governed and managed by the state. Assuming the equivalent role of depositors in a bank, each person receives a just and fair return on his deposits. As for the nature of such a return, such as dividend payments, again, each person must be treated in an equitable manner. From a contemporary perspective, whatever gains society makes as a result of expanded production base, technical change, increased exploitation of natural resources and economic growth, such gains should be evenly distributed among all members of society. Public ownership should afford every citizen of the state an equal right to benefit from public resources and ensure equity and socio-economic justice for all.

Some countries, most notably Kuwait, Qatar and the United Arab Emirates, have established significant (relative to their domestic populations) funds to provide a source of income for when oil and gas booms taper off. The problem is that these funds (commonly referred to as Sovereign Wealth Funds or SWFs) are hardly transparent; their operations and their ownership (rulers or citizens) are not clear. What we are suggesting is that SWFs should be the vehicle to manage the depletion of oil reserves in order to benefit all generations. How would this translate into policy?

Possibly the most feasible way to afford similar real benefits to all generations of citizens and be on the path of sustained and equitable development is to give an equal real payout from a well-managed SWF (financed from current and future oil and gas revenues) directly to each citizen, living today and for all time. This may sound like a difficult task technically, but it is not. All oil revenues would be put into a national SWF. The real payout could be readily calculated and updated, as a moving average, to reflect changes in the oil and gas markets and country populations. Such an approach would bypass wasteful government expenditures, be they subsidies or military expenditures. Individuals would be in a position to spend their money as they wished, thus this would be the most efficient way to transfer benefits to the citizenry. Governments would be forced to become both efficient and accountable because they would rely on taxes for revenues, as do most countries in the world.

The de-linking of oil revenues from government coffers should also reduce other problems, such as high level of military expenditures, which in turn could be associated with civil wars and conflicts. Conflicts in turn lead to higher military expenditures, capital flight, loss of social capital, slower economic growth, more poverty and refugees, an almost impenetrable vicious circle. This approach would also reduce corruption and result in more equitable societies. We believe that a fund that in time takes all revenues away from the government should be a primary component of any template to manage natural resource depletion. The management of such funds must be transparent and outside of the personal control of rulers, and each country must design a carefully tailored system that affords appropriate
incentives to individuals to live productive lives and to contribute to national economic and social prosperity.

**Conclusion**

In the major oil-exporting countries of the Persian Gulf, economic and social policies have been largely designed to support the ruling families (Kuwait, Qatar, Saudi Arabia, the United Arab Emirates) or groups (Iran, Iraq) in power. Corruption and state-sanctioned withdrawals from the treasury benefit those in power. Viable institutions have not been nurtured because effective institutions would reduce the role and importance of ruling families and illegitimate governments and prevent them from capturing the oil rent that rightfully belongs to the citizenry. Ruling families and powerful groups prefer individuals, usually relatives or associates, to be the source and basis of continuity. At the same time, the ruling élites in the West have followed their own personal and corporate financial interests and supported these families and groups, nurturing their dependency on Western support.

There can be little doubt that to varying degrees all of the major oil-exporting countries, besides the USA, Norway and Canada, have failed or have not come even close to their potential economically and socially. While oil has supported government revenues, economic and social injustice have become all-pervasive, corruption and waste have permeated the fabric of society, hard work has been disdained and military expenditures, conflicts and wars have robbed the region of the hope of a better future. Change needs to come while oil and gas reserves last.

In the aftermath of the widespread protests across the Middle East and North Africa, change is more likely than ever before. Citizens have been protesting for representative rule, economic and social justice, economic prosperity and better employment opportunities for all. Rulers will have to listen or they risk being swept aside.

What we propose is a fund that takes oil revenues away from the state and invests them on behalf of all generations of citizens. As our proposed fund takes the “easy” money of oil revenues away from the hands of governments and rulers, waste and corruption will by definition be reduced, there will be a better chance of adopting and implementing rational economic policies, and equity across generations will become a reality. Hope will slowly be restored to the masses in these countries. In this quest, the meddling of major powers must be reduced and the United Nations must deter regional aggressors to reduce conflicts and wars that in the end are motivated by endowments of oil and natural gas.

The rulers and élites in all oil-rich countries will of course condemn what is proposed here and the major global powers, whatever their public stance, are unlikely to abandon their favorite dictators and support such a proposal unless rulers also support it. This proposal will see the light of day only if it is supported by international agencies, NGOs and academics, and if it is given international recognition by the media.

**Notes**

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Input subsidies, such as subsidized fuels, electricity and water must be avoided as they encourage overuse and waste of the subsidized resource. Output subsidies do not encourage waste of inputs. 


This is the central theme of the Hausmann and Rigobon paper. 


The exception are countries that are so rich that they can invest a large portion of current oil revenues in diversified assets (abroad) to give the government all the revenues it needs in the future without having to resort to taxation. 
