Oil as the Path to Institutional Change in the Oil-Exporting Middle East and North Africa

Mohammed Akacem, PhD*

Dennis D. Miller, PhD

The Arab Spring has unleashed forces destined to change the political and economic landscape of the oil-rich Middle East region in the long run.[1] To date, the Arab Spring has not produced the expected change, but it has forced regional governments to be more responsive to citizens' demands. Until those protests and demonstrations occurred, the Arab world suffered the distinction of being without a functioning democracy. Although theories abound as to why this area has lagged behind, this article presents new explanations that shed light on the Arab democracy deficit. It also presents a new perspective on how the Arab world, particularly the oil-producing countries in the Middle East and North Africa (henceforth referred to as the oil MENA), can help make their transition into democratic states smoother and more peaceful. Furthermore, forces of instability will continue to hobble the region until it addresses the democracy deficit. For the oil MENA, a start—however gradual—should begin with an oil privatization program that would put oil wealth directly into the hands of citizens. The authors note that their original research in this area preceded the onset of the Arab Spring and that these policy prescriptions were advocated prior its instigation.[2]

Much has been written in the economic literature about the resource curse and its impact on economic growth and development.[3] That research, however, misses the mark. The authors do not subscribe to the thesis that oil is the root of everything that afflicts oil

*Mohammed Akacem is currently a professor of economics at Metropolitan State University of Denver. Previously, he worked at the International Center for Energy and Economic Development in Boulder, Colorado, and served as an economist at the Saudi Fund for Development in Saudi Arabia. Dr. Akacem has published in a number of US newspapers as well as in journals. He received his PhD from the University of Colorado–Boulder.

Dennis D. Miller holds the Buckhorn Endowed Chair at Baldwin Wallace University, Berea, Ohio. He worked at the International Center for Energy and Economic Development and the Institute of Behavioral Science at the University of Colorado–Boulder. He also taught at the American University in Cairo, Egypt, and was an analyst for the US Department of Agriculture. Dr. Miller, who has published in US newspapers and journals, received his PhD from the University of Colorado–Boulder.

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states in the Middle East. Oil by itself does not prevent the onset of transparent and accountable democracy. Rather, the lack of sound democratic institutions that enforce property rights, nurture independent judiciaries, and support the rule of law prevents democracy from taking hold.

Citizens of the oil MENA region are constantly reminded through official speeches that the oil controlled by their governments belongs to the people. Yet, citizens often do not see benefits accruing to them in terms of oil revenue distribution. Or, if these benefits indeed exist, they are unequally distributed. Little accountability or transparency exists to inform the average citizen about what happens to income derived from oil as a result of social goals that are decided, predominantly by an unelected, well-connected few who presume to "know what is best" for the rest of the population.[4]

This article proposes an oil privatization plan whose goal is to transfer oil wealth from the oil MENA governments to the citizens.[5] Its ultimate objective is to empower citizens of the oil MENA region and reduce waste and corruption that are so endemic in these resource-rich countries. The article seeks to answer the following questions:

1. How would the privatization plan change the power relationship between the government and the governed?
2. With impartial application, can the proposed plan help foster democracy and the ultimate missing ingredients in the Arab world—namely, accountable governments and the rule of law?
3. Will the plan reduce waste and corruption, and what are its limits?

The article includes a review of current literature followed by a section on empirical evidence about the state of institutions in the oil MENA region. It then explores the oil privatization plan, its implementation, and its limits: What are the costs and benefits of such a plan? How would it help the oil MENA build democratic institutions in the post–Arab Spring environment? Finally, the article summarizes and concludes with key arguments for the oil privatization plan.

Review of the Literature

As radical as the proposed oil privatization plan may seem, in 1989 Nobel laureate Milton Friedman suggested a similar approach within the general context of privatization of government-owned entities:

> My own favorite form of privatization is not to sell shares of stock at all but to give government-owned enterprises to the citizens. Who, I ask opponents, owns the government enterprises? The answer invariably is, "The public." Well, then why not make that into reality rather than a rhetorical flourish? Set up a private corporation and give each citizen one or one hundred shares in it. Let citizens be free to buy and sell shares.[6]

However, as a result of contextual differences Friedman may not have anticipated, the approach here differs somewhat from his plan, and the authors will explore this difference. We agree that if the public owns the resource, then the public, as citizens, should directly derive the benefits.

Marshall Goldman describes how Russia's Vladimir Putin has used the oil wealth of Russia to suppress the opposition, control the news media, and thereby buttress his power.[7] Thomas Friedman devotes an entire chapter ("Fill 'er Up with Dictators") in his best-selling book *Hot, Flat, and Crowded* to discussing how government-controlled oil has propped up dictatorial regimes throughout the world.[8] In his article "The First Law of Petropolitics," Friedman argues that an inverse relationship exists between freedom and oil wealth.[9] However, that is not universally true, as we show below.

Commenting on "rent-ridden countries," Dr. Arvind Subramanian notes that economic rents from oil wealth often impede the development of good governments and of sound institutions:

> The history of economic development suggests that in rent-ridden countries, governments have little incentive to create strong institutions. The state is relieved of the pressure to tax its citizens and has no incentive to promote the protection of property rights as a way of creating wealth. As for the citizens themselves, because they are not taxed, they have little incentive and no effective mechanism by which to hold government accountable.[10]

In this same vein, a report on the Arab world by the United Nations Development Program states that "in the rentier state, government is absolved of any periodic accountability, not to mention representation. . . . The rentier mode of production opens cracks in the fundamental relationship between citizens as a source of public tax revenue and government."[11]

Similarly, Larry Diamond raises the issue of "the democracy deficit" in the Arab world and attempts to outline the reasons for its existence. The factors he outlines account for some of these reasons, but none of the ones he mentions fully resolve the issue.[12] The literature regarding Arab countries points to the resource curse as being among the factors that prevent democracy from taking hold.

Despite the number of articles and books written on the subject, the oil-curse theory does not fully explain either the democracy deficit or the lack of economic growth and development.[13] If that were the case, it would be nearly impossible to explain the economic success of Norway or its functioning democracy. Moreover, it would be hard to explain the success of Singapore, a city-state without natural-resource wealth or oil, for that matter. Oil, we argue, is not a hindrance to economic prosperity, and the lack of oil does not doom a country's prospects to poverty. The focus must remain on institution building.

Furthermore, consider the United States. It began its status as an oil power in the late 1800s yet did not suffer from any of the ills of the so-called curse. It is clear, as Diamond points out, that the resource curse cannot be the culprit. Many functioning democracies outside the Arab world do not have oil, yet they are democratic. Moreover, some countries in the Arab world have no oil, but they are undemocratic.

Michael Ross has carefully examined the role that oil plays in hindering democracy.[14] Among several effects, Ross examines the "rentier effect," the "repression effect," and the "modernization effect." The oil rent (i.e., the flow of profits directly to governments from nationalized oil sectors) essentially frees governments from having to resort to direct taxation such as income taxes. In turn, these governments can excuse themselves from being accountable to the people they govern. Most of the Arab Gulf states fit this model; the situation is "no taxation, no representation."[15] Instead, these oil economies morph into an oil-revenue transfer machine to governments that decide spending: when, how much, and for whom. The plan presented here provides an alternative that could help smooth a transition to democracy in the region.

Prior to the Arab Spring, oil regimes found it easier to co-opt the opposition by buying their loyalty. Now, however, it is much more difficult. Recently, oil markets have softened, and prices have hovered slightly below $50 a barrel. This situation will strain budgets in these oil economies that rely so heavily on oil revenues and make it more difficult to "buy" the peace. Figure 1 illustrates this phenomenon. Out of the eight MENA oil economies, only one is able to balance its budget at the current oil price of $51.68.[16] That country is Kuwait. Although a number of the MENA countries have sovereign wealth funds as well as foreign currency reserves and can fund the budget shortfall from these sources, the pressure on oil markets is projected to lead to lower oil prices if the Iran nuclear agreement is ratified by both sides.[17]

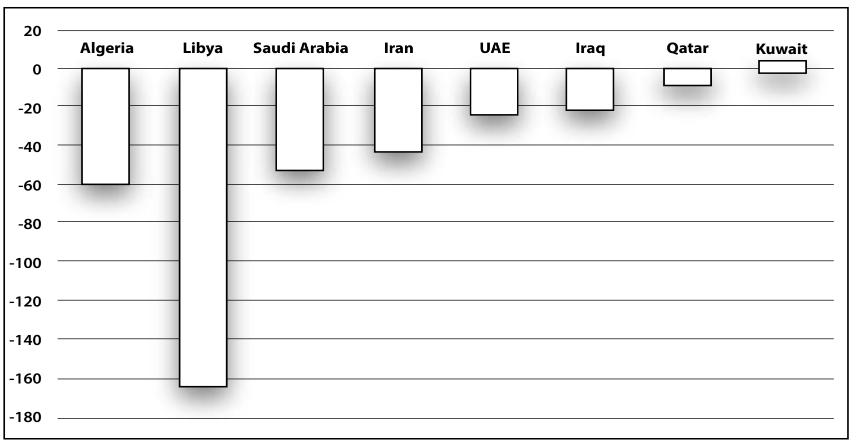

Figure 1. Oil market price versus break-even price to balance the budget. (Data from Benoît Faucon, Bill Spindle, and Summer Said, "OPEC's Pricing Leverage Is Weakening," *Wall Street Journal*, 31 May 2015, http://www.wsj.com/articles/opecs-pricing-leverage-is-weakening-1433117819.)

Ross contradicts the claim that governments relying on oil revenues are more likely to be authoritarian by the fact that a number of oil economies are democratic (e.g., Norway) while other undemocratic countries do not have oil.[18] As noted earlier, both the oil and nonoil economies in the Arab world have spent heavily on security and defense in order to "repress" their population. In this respect, Ross is correct in citing the repression effect as a major tool that hinders the onset of democracy since it is equally valid in the Arab world and other regions for both oil-rich and nonoil economies.

The evidence presented in figure 2 supports the findings of a number of scholars, including Ross—namely, that oil economies tend to divert a larger portion of their oil revenues toward defense than do nonoil economies.[19] Revealed in the data displayed in the figure is the much larger share of defense spending by the United Arab Emirates (UAE) and Saudi Arabia compared to that of the United States and Norway, despite the fact that America is a military power that often supports those Arab countries militarily and that Norway is an oil economy. For example, the UAE, Saudi Arabia, and Kuwait—even with their high levels of military spending—called on the United States and its allies to help dislodge Iraq from Kuwait.[20] Nor is Algeria immune from this spending. In fact, it spends more as a proportion of its gross domestic product on defense than does Norway for most of the years measured, particularly after 1993. Oil wealth and the lack of accountability enable those countries to commit huge resources to their militaries, which are sometimes still dependent on outside assistance.

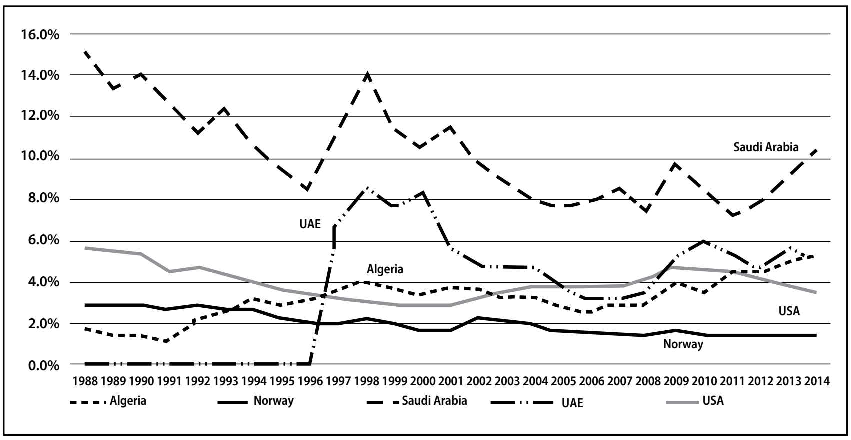

Figure 2. Defense spending as a percentage of gross domestic product. (Data from "SIPRI Military Expenditure Database, 1988–2014," Stockholm International Peace Research Institute, accessed 8 September 2015, http://www.sipri.org/research/armaments/milex/milex_database.)

Ross's "modernization effect" does not appear to explain either the onset or retardation of democracy. He argues that economic development and education did not lead to a wave of democratization prior to the Arab Spring even though the Arab world has made strides in these areas in general.[21] Yet, this region lags behind the rest of the world in mature civil societies and democratic institutions. In other words, to be developed does not necessarily mean to be democratic.

The research of Michael Alexeev and Robert Conrad supports the claim that oil cannot be the binding constraint hindering economic growth and development of the oil states in the Arab world.[22] In fact, they assert that oil helped foster economic development of the oil states. Alexeev and Conrad's arguments are valid up to a point. Research presented in this article indicates that even though oil may have helped in some limited way to fund government activities, it distorted the incentives that would have allowed economies to grow much faster and certainly more democratically. Perhaps the lack of checks and balances afforded by an active legislative branch of government or by an independent judiciary contributed to this distortion.

Alexeev and Conrad's conclusions support the contention that something other than oil causes this distortion, with an emphasis on an "unknown" they call "phenomenon X": "The role of X has been played by the Dutch disease, civil conflict, rent seeking, neglect of human capital development, decline in saving and investment, and increase in income inequality, among other factors. Recently, deterioration of institutions appears to have emerged as the most popular interpretation of phenomenon X."[23]

Their finding is consistent with the position of this article: the problem with slow or no movement toward democracy is related to the "deterioration of institutions" and not oil.[24] If proof is needed to show that simply being rich in oil is enough to foster democracy, then the Arab Spring has shown that oil by itself and the income from it do not foster democracy's growth.[25]

Education level is another factor that can potentially move Arab countries toward democracy. Filipe Campante and Davin Chor look at the influence of education in the context of the "modernization hypothesis." Although one would expect education to lead to democracy, they note that not all empirical evidence shows that *education matters*. Others have pointed out that "these findings are spurious, in that they are driven by the joint increase over the years of both education and the spread of democracy across rather than within countries."[26]

Left unsaid is the fact that an increase in more educational expenditure alone proves insufficient. The quality and type of education are important aspects of democratization as well. The quality of education must produce basic reading and arithmetic skills, and the type of education available must meet the demands of the labor market. The lack of either one will limit much of the policy inference based on these studies.

The problem in the oil MENA involves the failure of educational systems to deliver a consistently high-quality education, complete with teaching skills, that these economies need. One could ask, Had the education systems in the oil MENA managed to deliver what the labor markets needed, could the Arab Spring have been avoided? This article maintains that the protests would have occurred even without education factored into the equation. The fundamental problem that inspired the Arab Spring relates to the nonexistence of basic institutions and the lack of accountability of governments that should have safeguarded the rights of individuals in the region. Figure 3 illustrates this assertion.

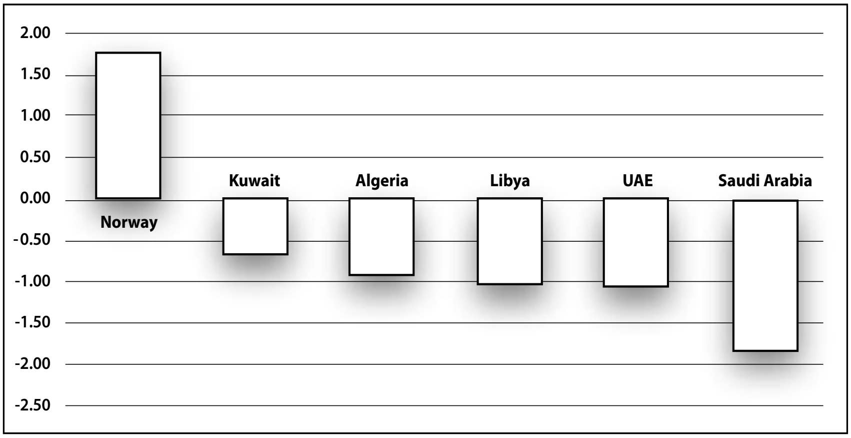

Figure 3. Voice and accountability: 2013 estimate. The estimated values for governance shown in the figure are from a value of -2.5, which is considered "weak," to a value of 2.0, which is considered "strong" for governance performance. (Data from "Worldwide Governance Indicators, 2014 Update," World Bank, accessed 8 September 2015, http://info.worldbank.org/governance/wgi/index.aspx#home.)

As the data in the figure indicate, the five Arab oil-exporting countries do not compare favorably with Norway regarding voice and accountability.[27] As the natural-resource curse would imply, oil did not prevent Norway from having sound democratic institutions to safeguard the rights of its citizens. As seen in much of the relevant literature that relates to oil and democracy, the findings are consistent: the fact that a country is oil rich and has a functional educational system does not explain the lack of sound democratic institutions and democracy.

The major difference between Norway's higher score and that of the Arab oil-producing states shown in figure 3 relates to when the oil was discovered. On the one hand, countries in the oil MENA region that discovered oil *before* they built these institutions did (and still do) poorly in terms of voice and accountability; consequently, it was a challenge—but not an impossibility—to build them after the oil income began to pour in.[28] On the other hand, oil economies that discovered oil *after* they built democratic institutions rank high in these measures. In support of these facts, Kevin K. Tsui finds that "a larger quantity of oil discovered is strongly linked to slower transition to democracy."[29] Furthermore, he argues that when a country with a democratic government stumbles on a significant oil find, it has no impact on the quality of democratic institutions.

Democracy through Oil

With an eye to the importance of institutions as major drivers of democracy in the Arab world, this article proposes a plan, not set in stone, to foster democracy. The model may appear impractical, but we stress that Norway and the United States, with particular emphasis on the oil-rich state of Alaska, are operating well and democratically under a similar model.

Middle East oil development went through two major historical periods. The first period was characterized by the oil majors'—the so-called seven sisters'—control of oil from the wellhead to the gas station. These private international oil companies, headquartered outside the MENA, were interested in producing as much oil and profit as they could, knowing that the sovereign governments in the Arab world would sooner or later assert control over oil production decisions.[30]

In the early 1970s, change over oil production decisions began and essentially transferred ownership and control from the seven sisters to the sovereign governments.[31] One could view this transfer as the beginning of what advocates of the resource curse refer to as the negative impact of oil on economic development and its effect on setting back the possibility of democratic change.[32] Transfer of ownership and control meant that oil revenues, in much greater amounts than before, would accrue to national nondemocratic governments. With this change began the ills associated with *government* oil ownership such as rent seeking, corruption, and large defense spending (see fig. 2).

To correct the high rates of corruption shown in figure 4, this article proposes an alternative to the status quo: the oil MENA countries should transfer property rights in oil from their governments to the rightful owners—the citizens.[33] This proposal simply affirms what the leaders in these countries claim or allude to time and time again in various speeches—specifically, that the oil wealth belongs to the nation and its people. Recalling Milton Friedman's quotation at the beginning of this article, the next step is simply to make this a reality.

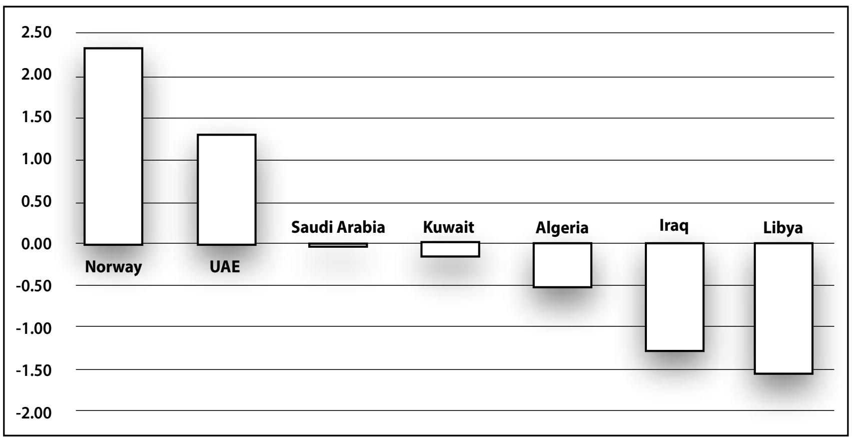

Figure 4. Control of corruption: 2013 estimate. The estimate for 2013 ranges from a value of -2.0, which would indicate a weak governance performance (corruption in this case), and a value of 2.5, indicating a strong governance performance. Norway again tops the group of oil producers shown in this figure, followed by the UAE with about half the value of Norway. The rest are mostly in negative territory. (Data from "Worldwide Governance Indicators, 2014 Update," World Bank, accessed 8 September 2015, http://info.worldbank.org/governance/wgi/index.aspx#home.)

Achieving the change in property rights from governments to citizens presents a challenge, but the Arab Spring has shown that rulers in the oil MENA region registered the sense of frustration among their populace. Although their response was the typical Band-Aid approach and not as radical as this proposal, it nevertheless put them on notice that the patience of citizens in the oil MENA has run its course. Failure to proactively tie the interest of citizens to that of the rulers will continue to create instability or worse yet—a descent into a failed state, as is occurring in the region (Iraq, Syria, Yemen, and Libya).

Had oil been the property of citizens instead of governments, that fact likely would have led to a more optimal policy concerning the rate of oil production being more consistent with the countries' needs and perhaps a more moderate level of military defense spending than the high level shown in figure 2.[34] The main result, however, would have been strong movements toward democracy and fair, legal institutions in those nations. We support the assertion in the following section.

The Oil Privatization Plan: A Path towards Democracy?

In light of the Arab Spring with its demands for more accountability and political freedom in the region, an oil privatization program would answer a number of deficiencies shown earlier in the figures presented so far.[35] The proposed plan has several aspects worth examining.

First, Arab governments of the oil MENA will not have to deal with an oil strategy that includes oil production and pricing issues.[36] When oil markets soften and oil prices drop as they have in the past, the governments will not be to blame. Since citizens and not governments are the ultimate owners, when lower oil prices occur and thus decrease oil income, the result will be attributed to international markets rather than government mismanagement.

Second, oil privatization will address the fairness issue in the oil MENA. Profits totally dedicated to the government and not given equally to citizens or projects benefiting them will be distributed to citizens on a per capita basis. Each citizen will be allocated the same number of shares per capita in the privatized oil company, which used to be the national oil company. Furthermore, the new citizen-owners will be able to decide how to spend their additional income. In the aggregate, their spending patterns will likely be very different from the excesses shown earlier in the figures.

Third, the outlay of oil revenues should become more stable since spending on consumer and household goods generally is less volatile, compared to that in other sectors of the economy. Instead of spending from the government *spigot*, often on projects without direct benefits to the citizens, expenditures will be more decentralized by numerous citizens as the new resource owners.

Fourth, from the perspective of economic development, local economies will benefit. There is less likelihood that the *new* spending will be wasteful—and definitely not for *white elephant* projects. Political corruption associated with concentrated flows of oil revenues to governments, as depicted in figure 3, should either lessen or cease. Thus, from an economic-policy view, the allocation of resources will proceed in a more efficient manner based on choices made from the bottom up. It is hard to imagine that expenditures could be any worse than they have been since the 1970s when transfer of property rights from the oil majors to governments in the region occurred. Since then, Arab oil producers' economic performance has been a failure.[37]

Fifth, this proposal would help the Arab world deal with its "youth bulge," the large percentage of people 30 years of age or younger who are unemployed—one of several factors that contributed to the Arab Spring. Figure 5, which shows youth less than 15 years of age in select countries in 2012, indicates that in some Arab countries the youth bulge will grow even greater within a few years.

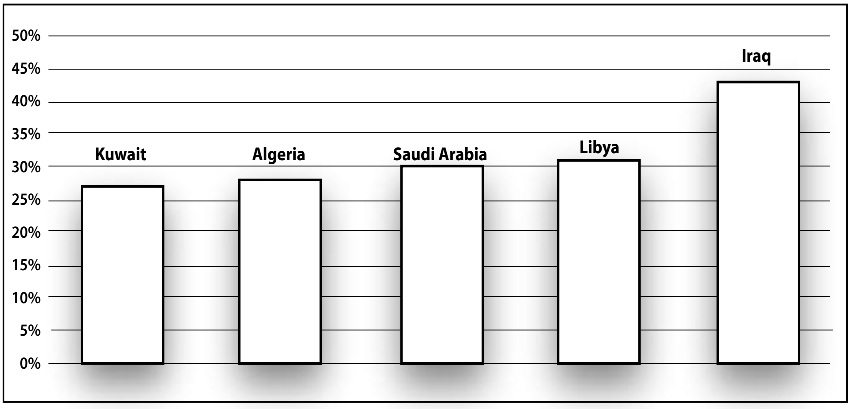

Figure 5. Population under age 15 in selected MENA countries. (Data from table titled "Population under Age 15 (Percent)," Henry J. Kaiser Family Foundation, accessed 14 June 2013, http://kff.org/global-indicator/population-under-age-15/.)

The oil MENA has been unable to offer a sufficient number of jobs for a youthful, growing labor force. Recently, President Obama noted this fact as a source of instability when he said in a speech to the Organization of African Unity, "We need only to look at the Middle East and North Africa to see that large numbers of young people with no jobs and stifled voices can fuel instability and disorder."[38] The proposed privatization plan would create a bottom-up inflow of oil profits to citizens that would increase discretionary household expenditures. In turn, this spending would stimulate hiring and thus provide more job opportunities for youth rather than supply more armaments that do not meet the immediate needs of the general populace. Investment capital produces more goods and services, which enhance employment—including youth employment.

The response by Arab governments to the pressures of the youth bulge has been to "throw" money at the problem by producing more oil instead of addressing the fundamentals of providing jobs and training. The danger for the oil MENA is that this situation continues to this day. As a result of the Arab Spring, Saudi Arabia, the UAE, Kuwait, and Algeria have resorted to increasing public sector salaries without regard to the long-term cost or increases in national output. Doing so may temporarily placate their population and buy some peace, but it will increase oil extraction in the short term to support those unprofitable expenditures, bringing about an earlier end to oil wealth and less oil revenue as more of them produce more. Worse still, given the Iran nuclear deal (should it be ratified), more oil will flood the markets, making the option of "buying the peace" by throwing more money at the problem unworkable. Thus, a privatization scheme, through the equitable distribution of shares to citizens, would address many grievances of the youth who revolted during the Arab Spring. In addition, it could lessen sectarian and interethnic conflict.

Why would adoption of a privatization model generate incentives to lessen such conflict? One reason for improvement is that if all citizens receive equal dividend income, regardless of faith or ethnicity, there can be no claim of government partiality in favor of one faith or ethnicity. Second, when the transfer of ownership is complete, it would not be in anyone's interest to destroy the common source of income that everyone receives. The various groups would have a strong incentive to preserve the oil wealth, and citizens would increasingly view themselves more as members of the nation and less as members of a tribe or religious group.

The proposed plan calls for existing national oil companies to change governing boards. Rather than have government officials or royalty control the oil, boards staffed by members of the general citizenry on a term basis, elected or appointed, will do so. These citizens will form boards of trustees that oversee the running of oil companies and the distribution of profits to the general population.

Once the legal change in ownership from government to citizens has occurred, the company can issue shares to citizens on an equal per capita basis.[39] The new board of trustees will make all decisions pertaining to dividend payments, oil production policy, and pricing. Unlike today's controllers of oil profits, these boards will be developed by each country according to its needs, responsible to the citizens and charged with spending according to their requirements and wishes. These changes will completely remove the central government from the process. For transparency and accountability, each board of trustees will make all accounting publicly available on a continuous basis on the web or by other means.[40] Citizens will receive dividends based on how well their citizen-owned oil company does in producing and selling oil and any other hydrocarbon-based products.

Potential Issues with the Privatization Plan

This approach will face two significant problems. First, governments in general are not likely to give up a guaranteed source of revenue that helps them stay in power. Since the Arab governments in oil-producing countries depend on oil revenues for a large portion of their needs, it is difficult for them to imagine an alternative. However, as noted at the beginning of the article, tax revenues from citizen-owners replace the previous stream of income that governments received directly from the oil industry. In the proposed policy change, the annual needs of a government for revenue would come through a direct income tax. Many countries do not have oil or natural resources to speak of but manage to do better than oil-based economies. Singapore is one of them. Dividend income from shares in the oil companies would be treated as ordinary income subject to standard rates of income taxation.

For the Arab countries that do not have an income tax at the moment, such as the Gulf oil producers, the change may present a challenge, but it is one that can be dealt with. Algeria, for example, will not face this problem since it already has a widespread income tax system in place. A move toward direct taxes as the main source of government revenue would at least help address the waste and corruption problem outlined here. Arab governments are not alone when it comes to excessive and wasteful government spending. All government bureaucracies tend to expand their size and costs beyond the social benefits they provide, as the *public choice* literature tells us.[41]

The second problem concerns stock markets. As mentioned earlier, markets in the Arab world are not as advanced as those in other emerging and developed economies. Therefore, the average citizen may not have much experience as a stockholder. Moreover, adding to this problem, this plan provides stock with rights to an equal share in the common flow of benefits from the country's oil wealth that will generate earnings throughout the life of the resource.

Some stockowners may not appreciate such long-term value. That is, they will not understand the uniqueness of the stock or even the meaning of capitalized value. Like any stock, this one will have value that theoretically reflects the present discounted worth of the anticipated stream of income over the length of the resource's life. Citizens will need education about this new stock and ways of managing it. Because stock ownership will be novel to many citizens of the oil MENA region, the uninformed citizen-owner could be tempted to sell valuable shares for less than their worth. Thus, if citizens were permitted to sell their shares soon after issuance, the goals of the model would be defeated because this freedom to sell could allow individuals who accumulated wealth through illegal means prior to the change in property rights to gain control of the market.[42] To prevent this fate, the plan contains a condition that oil shares issued to citizens are theirs as long as they live. If this provision is not possible, then at least the plan must have restrictive conditions on selling shares in order to avoid abuse.

Although it is a state rather than a nation, Alaska has a large land mass and oil deposits. By contrast, the Alaskan case shows the feasibility of distributing income derived from oil wealth to all citizens. That state's system closely approximates the type of distribution system suggested here. US citizens who reside in Alaska for one continuous year are entitled, as Alaskan citizens, to receive a disbursement each following year from the Alaska Permanent Fund (APF), set up to benefit future generations. "Many [Alaskan] citizens . . . believed that the legislature too quickly and too inefficiently spent the $900 million bonus the state got in 1969 after leasing out the oil fields. This belief spurred a desire to put some oil revenues out of direct political control."[43] Since the APF started disbursing payments to Alaskan citizens in 1982, per capita annual disbursements have ranged from $331.29 in 1984 to $1,884 in 2014.[44] One difference between the plan proposed here and Alaska's is that Alaska derives its payments from the oil company's royalty payments to the state. The payments from our plan come from the annual oil revenues directly distributed as dividends.

Despite the differences in the dividend distribution system between Alaska and the MENA region, it is important to consider how much the oil MENA citizens would benefit. Figure 6 suggests that the benefits would be substantial, based on the income per capita generated by oil exports for the year 2014. For example, Qatari citizens' per capita oil income would average $36,000 per year while Algerians are at the bottom at about $1,326 per capita per year.[45]

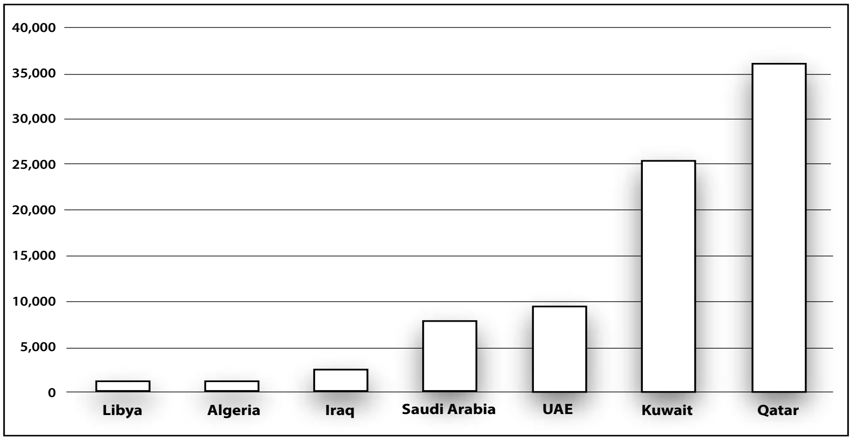

Figure 6. Arab per capita net oil-export revenues for 2014. (Data expressed in 2014 dollars for the same year. From "OPEC Revenues Fact Sheet," US Energy Information Agency, 31 March 2015, http://www.eia.gov/beta/international/regions-topics.cfm?RegionTopicID=OPEC.)

These are not direct payments to citizens, as is the case in Alaska, but estimates of the per capita income when the population divides the oil-export revenues. That amount is per person, so on per family basis, it would be substantial. Since the US oil production surge and change in fundamentals of the world oil markets, oil prices have dropped significantly to the low 50s. It is important to note the significance of such a drop to the implications of our proposed privatization plan.

The proposed privatization would generate approximately this amount in terms of dividend payments to citizens of these Arab oil-producing countries. The gross figure excludes the costs of extracting the resource from the ground—the actual receipt of income by citizens would be less since some of this revenue would finance the maintenance of industrial facilities and fund further exploration.

Conclusion

As Daniel Kahneman notes, the proposal would change the incentives, and governments would need to be more accountable to the citizens that they serve.[46] Although the oil privatization plan proposed here would face obstacles during the implementation stage, it should receive serious consideration. Given the state of the oil MENA region at the moment and the fact that the status quo has fueled the unrest witnessed since 2011, clearly it is time for a new policy approach. In the long run, the region would be better off if governments enabled citizen ownership of petroleum and natural gas resources through the issuance of stock shares that would provide dividends from those shares.[47]

There are spillover benefits to the United States in particular when it comes to the cost of projecting power in the region to safeguard the oil supplies as well as assuring safe passage of oil and overall stability in the region. The proposed plan would lessen the sectarian strife that is threatening that stability and could lead to a lesser US footprint in the region, thereby lessening the cost of US projection of power there.

In summation, this plan would turn what has inaccurately been perceived as a natural-resource "curse" into a "blessing." Democratic institutions and more democratic states will arise as the degree of political corruption declines. The time is ripe for citizens of the Arab oil-producing countries to truly "own" their national resources. It would be a crime of omission for Arab leaders to prevent this flow of blessings and help usher democracy, however slowly, into the region. Despite the challenges that our policy proposal may present, the status quo is too costly for this area and beyond. The *Economist* supports our claim that the status quo is unsustainable and that the alternative may be worse: "The argument that some civilizations are unsuited to democracy has been used from Taiwan to South Africa: it seldom holds water for long. The Arab spring has so far been mainly a mess. But to condemn Arabs to political servitude is no answer. It only delays the explosion."[48]

Notes

1. This article's ideas about the privatization of oil and empowerment of the citizen were first laid out in Mohammed Akacem and Dennis D. Miller, "Let It Flow," *Washington Times*, 21 February 2003, http://www.washingtontimes.com/news/2003/feb/21/20030221-085612-4813r/. The authors point to the Arab Spring as a direct consequence of potential results if the reforms suggested in 2003 are not seriously considered. It is too early to say if the Arab Spring will lead to meaningful change in the Middle East and North Africa, but in this article the authors maintain that without the proposed reforms, citizens in the Arab oil-producing states will continue to push for a larger share of the oil wealth. If they are deprived of the proper channels through which to express their preference and vent their grievances, they may resort to other means, destabilizing the entire region with wider effects on the world's oil markets and economy. The figures in this paper are derived from data from the indicated sources.

2. Ibid.

3. The resource-curse theory holds that resource-rich countries tend to exhibit low economic growth rates despite their natural resource endowments. For example, see Paul Collier and Anthony J. Venables, eds., *Plundered Nations? Successes and Failures in Natural Resource Extraction* (New York: Palgrave Macmillan, 2011).

4. This article provides evidence about the lack of accountability and compares Arab oil-producing states to Norway based on data from the World Bank's governance indicators.

5. The terms *plan* and *model* are used interchangeably to refer to the proposed oil privatization plan. The plan or model will argue for a share distribution plan in which each citizen will receive dividends based on the profitability and sale of oil (and gas in some cases). Details of the plan, the way it works, and its limits appear in later chapters.

6. Milton Friedman, "Using the Market for Social Development," in *Economic Reform in China: Problems and Prospects*, ed. James A. Dorn and Wang Xi (Chicago: University of Chicago Press, 1990), 13.

7. Marshall I. Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2010).

8. Thomas L. Friedman, *Hot, Flat, and Crowded: Why We Need a Green Revolution, and How It Can Renew* (New York: Farrar, Straus and Giroux, 2008), 79–100.

9. See Thomas L. Friedman, "The First Law of Petropolitics," *Foreign Policy*, 16 October 2009, http://www.foreignpolicy.com/articles/2006/04/25/the_first_law_of_petropolitics. In reality, it is not a "law" per se and is contradicted by Norway. There, a positive correlation exists between oil wealth and democracy. Rather, the issue is merely the difference between those countries that discovered oil *before* having established a solid institutional framework and those who stumbled on the oil riches *after* having already set in place the rules of the games and a strong democracy.

10. Arvind Subramanian, "Egypt's Rent Curse," Peterson Institute for International Economics, 22 February 2011, http://www.piie.com/blogs/realtime/?p=2047.

11. See United Nations Development Program, Arab Fund for Economic and Social Development, and Arab Gulf Programme for the United Nations Development Organization [hereafter UNDP], *Arab Human Development Report, 2004: Towards Freedom in the Arab World* (New York: UNDP, 2005), 152, http://www.arab-hdr.org/publications/other/ahdr/ahdr2004e.pdf.

12. See Larry Diamond, "Why Are There No Arab Democracies?," *Journal of Democracy* 21, no. 1 (January 2010): 93–104.

13. Mohammed Akacem, "The Fallacy of the Resource Curse in Arab Oil Economies: The Role of Institutions" (paper presented at the Association of Private Enterprise Education meeting, Maui, HI, April 2013).

14. Michael L. Ross, "Does Oil Hinder Democracy?," *World Politics* 53 (April 2001): 325–61; and Akacem, "Fallacy of the Resource Curse." In this article, the authors tested for the resource curse using panel data but found no evidence of its existence. The same was true of a test for the curse in Norway. Much of the work on the resource curse, although it sheds light on important issues, has ignored or did not test for the role of institutions. This article does not explain the model's technical aspects, but it is important to recognize that when nations have oil, democracy may experience difficulty taking hold. This phenomenon appears to depend on when oil was discovered: before or after the government and other institutions were set up.

15. Brian Whitaker has explained that "as a rule of thumb, high taxes can act as a spur towards democracy and accountable government. Conversely, where taxes are low, the pressure for democracy and accountability is usually less." See "Why Taxes Are Low in the Middle East," *Guardian*, 23 August 2010, http://www.guardian.co.uk/commentisfree/2010/aug/23/why-taxes-low-arab-world.

16. Benoît Faucon, Bill Spindle, and Summer Said, "OPEC's Pricing Leverage Is Weakening," *Wall Street Journal*, 31 May 2015, http://www.wsj.com/articles/opecs-pricing-leverage-is-weakening-1433117819.

17. Ironically, the largest sovereign wealth fund (SWF) is not from the MENA region and in particular not from the UAE or Saudi Arabia. Instead, Norway has the largest SWF and the most transparent of all SWFs in the world. This fact supports our main thesis that solid institutions matter and do support the building of viable democracies where there is a will. See "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute, accessed 31 July 2015, http://www.swfinstitute.org/sovereign-wealth-fund-rankings/.

18. Ross, "Does Oil Hinder Democracy?," 337. An example would be the nonoil Arab countries in the MENA.

19. See ibid.; and Michael Alexeev and Robert Conrad, "The Elusive Curse of Oil," *Review of Economics and Statistics* 91, no. 3 (2009): 586–89.

20. Kuwait is not shown in figure 1, but the data reveal a much higher percentage of defense spending than for its Gulf brethren, particularly during the Desert Storm conflict and afterward. Kuwait's expenditure on the military in 1990 was 48.5 percent of gross domestic product; in 1991, 117 percent; and in 1992, 31.8 percent. See "Military Expenditure," Stockholm International Peace Research Institute, accessed 14 September 2015, http://www.sipri.org/research/armaments/milex.

21. Ross, "Does Oil Hinder Democracy?"

22. Alexeev and Conrad, "Elusive Curse of Oil."

23. Ibid., 586.

24. Mohammed Akacem, "The Economics of the Arab Spring: Implications of the Resource Curse" (paper presented at the Southern Economic Association, 82nd Annual Meeting, New Orleans, 16–18 November 2012).

25. Tunisia, Libya, and Egypt all had changes in governments brought about by the Arab Spring. However, other Arab countries either undertook actions to prevent full-scale revolutions or suppressed uprisings. For example, Algeria suppressed revolts, but it was quick to offer a carrot in the form of salary increases to government employees. It would not have done so without the Arab Spring. Kuwait and Saudi Arabia also announced large spending programs in favor of the youth but also rewarded public sector employees with large salary increases.

26. Filipe R. Campante and Davin Chor, "Why Was the Arab World Poised for Revolution? Schooling, Economic Opportunities, and the Arab Spring," *Journal of Economic Perspectives* 26, no. 2 (2012): 184.

27. "Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media." "Voice and Accountability," World Bank, accessed 29 June 2014, http://info.worldbank.org/governance/wgi/pdf/va.pdf.

28. Mohammed Akacem, "The Fallacy of the Oil Curse and the Fate of the Arab World," *Your Middle East,* 22 May 2013, http://www.yourmiddleeast.com/business/the-fallacy-of-the-oil-curse-and-the-fate-of-the-arab-world_15249.

29. Kevin K. Tsui, "More Oil, Less Democracy: Evidence from Worldwide Crude Oil Discoveries," *Economic Journal* 121, no. 551 (March 2011): 90.

30. The "seven sisters" included the Anglo-Persian Oil Company (BP), Gulf Oil, Standard Oil of California (SoCal), Texaco (Chevron), Royal Dutch Shell, Standard Oil of New Jersey (Esso), and Standard Oil Company of New York (ExxonMobil). For more on this process and resulting spikes in the price of internationally traded oil, see Ali D. Johany, *The Myth of the OPEC Cartel: The Role of Saudi Arabia* (New York: John Wiley & Sons, 1980).

31. Ibid.

32. The authors maintain that oil is not the culprit. Rather, the culprit is simply the unaccountable governments that control the oil and receive the oil revenues. The proposal to change the direction of the flow of oil revenues from governments to citizens avoids the downsides of previous arrangements.

33. The privatization scheme that we propose was first outlined in Akacem and Miller, "Let It Flow."

34. The question without a full answer is, How does one convince an oil government to let go of the controls it has over the oil wealth and distribute it to its rightful owners? Based on the Arab Spring, the citizens' threat produced enough of an incentive to a number of oil-exporting countries to undertake changes that would satisfy the grievances of the general populace. The alternative unrest and instability are hobbling a number of countries in the region. Once the citizens have a stake in the wealth of the country, they are not likely to join extremist groups or attempt to destabilize the government.

35. The model proposed here is a revised version of the one suggested in Mohammed Akacem and Dennis D. Miller, "Privatizing OPEC: A Property Rights Perspective," *Berichte / Forschunginstitut der Internationalen Wissenschaftlichen Vereinigung Weltwirtschaft und Weltpolitik* 15 (2005): 70–80. A fuller discussion of oil privatization can be found in Mohammed Akacem, "The Myth of the Oil Curse in Arab Oil Exporting Economies: Evidence from Norway and Singapore," *Singapore Middle East Papers*, no. 13 (22 June 2015), https://mei.nus.edu.sg/themes/site_themes/agile_records/images/uploads/Download_SMEP_13_-_Akacem.pdf.

36. References to the "Arab world" in this article mostly concern the oil-producing states within it. Policy prescriptions and proposals are specific to the oil producers only, not to the nonoil producers.

37. The authors are not claiming that when the oil majors had full control of oil resources that the Arab countries were better off. They were not. But the change in property rights from the oil majors to governments did not improve the situation because the governments and the leadership in these countries do what the oil majors did. However, the government and leaders spent to directly benefit their own governmental interests rather than the people, all the while claiming that oil was the property of the citizens. This tendency

has a long history. See Dennis Miller, "States Do Good, Arab Economies Done Ill," op-ed, *Wall Street Journal*, 3 September 1987.

38. "Remarks by President Obama to the People of Africa" (Washington, DC: White House, Office of the Press Secretary, 28 July 2015), https://www.whitehouse.gov/the-press-office/2015/07/28/remarks-president-obama-people-africa.

39. As stated earlier in the article, a percentage of the oil wealth must be reserved for future generations.

40. Norway shows that this is easy to do. Data about the fund are available on the web for anyone to see. Indeed, see "The Norwegian People Own the Fund," Norges Bank, accessed 14 September 2015, http://www.nbim.no/en/. Also, as noted earlier, while no government will easily give up controls of the oil wealth, the Arab Spring serves as a warning to leadership in the Arab oil-exporting countries that sooner or later a change of the status quo needs serious consideration. Several countries discussed earlier indicate that they will respond.

41. See James M. Buchanan and Robert D. Tollison, eds., *The Theory of Public Choice: Political Applications of Economics* (Ann Arbor: University of Michigan Press, 1972).

42. This group includes former government officials, members of the royal family, and businesses that may have accumulated wealth illegally. Nonnationals or even Western oil companies could corner the market since they would have the funds to do so.

43. "Alaska Permanent Fund Corporation," Sovereign Wealth Fund Institute, accessed 14 September 2015, http://www.swfinstitute.org/swfs/alaska-permanent-fund-corporation/.

44. Ibid.

45. This represents a significant drop from the figures of 2011, a drop from $50,000 to $36,000 for the Qatari citizen, and a drop from $1,600 to $1,326 for the Algerian citizen (i.e., for each person, so an average family would still do well on the basis of purchasing power parity).

46. Accountability is enhanced by what Nobel Prize recipient Daniel Kahneman refers to as the "endowment effect": "Owning the good . . . increase[s] its value." When governments controlled and essentially owned the good—in this case, the flow of income from oil—the citizens were disconnected from the resource and were owners in name only. But once they receive the actual income, they become its owners. When that income is tangible to them, it has greater value because of the endowment effect. Consequently, if a democratic government proposes a spending project, that project must be of greater benefit to citizens than the income that they must give up. This new endowment will tend to discipline the spending of governments and push them to consider only those projects that citizens really value. See Daniel Kahneman, *Thinking, Fast and Slow* (New York: Farrar, Straus and Giroux, 2011), 293–99.

47. One would naturally argue that the privatization plan might be too complex to administer and that an "honest" government simply should be allowed to attain the same goals through investments of the oil and gas riches. Unfortunately, this scenario has not happened and is not likely to happen. The new approach would at least diminish the power of the governments and would force them to resort to taxation—but with the acquiescence of the citizenry, thus slowly fostering an environment of accountability that could in time lead to building the proper institutions and taking a step toward democracy.

48. "Arab Democracy: The Lesson of Algeria," *Economist*, 19 April 2014, http://www.economist.com/news/leaders/21600984-even-if-arab-spring-has-sorely-disappointed-dictators-even-benevolent-ones-are-not.