

Natural Sovereigns of Iraqi Oil

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There is now widespread speculation in the nation's capital that as a result of stubborn Iraqi resistance to the U.S. occupation, American officials have fundamentally altered their plans to "remake" Iraq. Specifically, The *Washington Post* reported on Sunday, this means "back(ing) away from several of its more ambitious initiatives to transform Iraq's economy, political system and security forces."

"Transforming" Iraq into a completely secular, Western, pluralistic, free-market democracy was never something U.S. occupation forces could hope to accomplish in the near term.

Professional historians may recoil at the simplistic notion, but I believe each society arrives at its present point in history by journeying down a historical path that can never be "transformed" but merely redirected.

My instincts tell me that one country cannot be "airlifted" or "transported" to another point in history by another country, no matter how great that country's political, economic and military prowess - absent what we accomplished post-World War II.

Our goal in Iraq should have been what Hernando de Soto and I have called a 21st Century Marshall Plan for the whole region. It should not be to "transform" anything but simply to throw a couple of the right switches on the historical track to allow the new Iraqi government to head out along a new path of democratic development. Therefore, our giving up plans to withhold Iraqi sovereignty until a new constitution was drafted to our liking is a very wise decision. Also, working out the thorny relationship between secular political power and Islamic religious authority is something that prudence dictates can only be done by the Iraqis themselves as they come to realize that Sunni, Shi'ah and Kurd all share in the future of Iraq.

The key to economic reform and development in Iraq, therefore, is not to privatize everything immediately but rather to leave the switch to private property rights and free markets open. But there is one important switch to private property and free markets that can be thrown open immediately - privatization of the oil industry the right way.

The Bush administration has scrapped its scheme to convert Saddam's old-style socialist oil industry into a new semisocialist oil industry like the one that exists currently in the state of Alaska. Under the Alaska-fund model, which the administration is said to favor, a certain share of the proceeds from the state-owned oil are placed into a state fund and paid out to citizens as the legislature sees fit. Although these payments are gussied up as "dividends," they are really little more than welfare payments since citizens do not actually own the oil at all, i.e., they do not have title to the land under which the oil resides or the mineral rights to the oil itself, nor do they have property rights through stock ownership in the business enterprise that does.

The Iraqi oil industry is the most economically developed of all industries in the country. It would be a straightforward matter to "privatize" the industry by simply designating the various existing administrative subdivisions of the industry as separate enterprises, each with an Iraqi CEO and board of directors, giving - not selling - an equal share of the stock in each of those enterprises to every Iraqi citizen. Presto, the industry is privatized. And the Iraqi people become shareholders in Iraqi oil products or in the Iraqi oil industry and stakeholders in Iraq's move toward democratic development.

If the new Iraqi government wanted access to those revenues, it would have to levy a tax, not simply dip into them at will. Not only would this arrangement prevent the typical corruption and profligacy that inevitably accompanies state-owned oil industries, but it also would generate enormous centripetal forces pulling the country together as citizens from all religious, ethnic and tribal backgrounds suddenly were given a shared financial interest in private economic enterprises.

The privatization of Iraq's oil should be done immediately, not through the half-baked "voucherized" auction method that failed so miserably in Russia, or the even less-than-half-baked idea of Noble Prize-winning economist Vernon Smith, who would offer the Iraqi peoples' most valuable asset to the highest bidder, whether Iraqi or multinational corporation. Rather, Iraq's oil ought to be privatized along the lines of President Lincoln's fabulously successful Homestead Act in 1862 America, where clear title to 160 acres of federal land was "given" outright to citizens. It was, after all, theirs to begin with, and it is our solemn duty to make sure it stays that way.