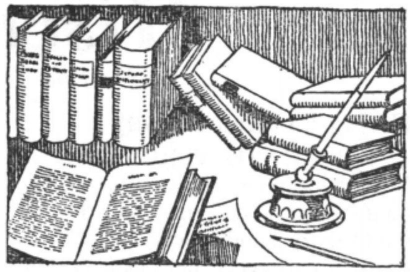
Oil Revenues — The Wider View



By R. SMITH

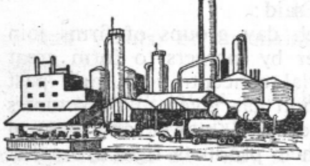
WAYNE LEMAN, Professor of Economics, University of Missouri, deals thoughtfully and analytically with the question of the just distribution of oil revenues among Middle East governments in *The Price of Middle East Oil,* pp. 254-257 (Cornell University Press, 1962).

After quoting Adam Smith, Ricardo, John Stuart Mill and Henry George, all of whom regarded income from natural resources differently from income from other sources, the writer concludes: " . . . the basic truth that land rent is an unearned income has never been effectively refuted (though it has often been ignored)."

Equating oil revenues with land rent, he suggests how these might best be distributed among the people. He says: "Ideally the economic rents of the world would be collected in taxes by a world government and distributed in some manner to people generally, perhaps equally, or in accordance with need."

One can have much sympathy with this proposition but whether it would be the ideal method is a moot point, involving as it does the very existence of a world government. On a more realistic level, he suggests that a wider distribution of oil revenues in the Middle East might be secured through a Middle East development fund or bank, or through an Arab development bank.

Kuwait, an immensely rich though tiny state with a population of only 200,000, is taken as an example, for it is surrounded by other Arab states whose people generally live below the poverty line. Wayne Leman makes the suggestion that a political union, long advocated by these states, would enable the oil revenues to be dispersed by means of investment throughout such areas as the Fertile Crescent. This would encourage traditional migration to Iraq, Syria and the Lebanon and, by raising production, would do much to relieve poverty.



In his estimation, Kuwait has a very weak moral claim on the whole of its oil revenues, for apart from the considerations already mentioned there are other factors. For instance, a large part of the income received is invested in developed countries like Britain and although various projects, such as hospitals, schools and public works, have done much to raise living standards, there is no guarantee that the population generally has benefited on a large scale. Then, the Kuwait are not happy in their dependence upon a foreign power (Britain) for the defence of their wealth and many of them would prefer to participate in the development of an Arab nation. Finally, the outlet for investment and production within such a small state is probably limited.

The writer's conclusion that Kuwait's income should be shared among other states is a novel one. But, in fact, he takes the argument further and suggests that American foreign aid to underdeveloped countries might be regarded as a matter of simple justice in the absence of world government, and a stage towards the redistribution of economic rent on a world scale.

This certainly gives food for thought, but it may be legitimate to draw the inference that he has perhaps not fully understood how land values arise. Taking his own example of the Middle East, it is doubtful whether a wider distribution of oil revenue, used *in order to promote development,* would necessarily benefit individuals — or at least benefit them substantially. In the absence of general land-value taxation applied to all land — city, urban and mineral — the result might merely be that other landowners would become richer owing to the rise in land values that would inevitably follow.

It would be churlish to dismiss Mr. Wayne Leman's ideas, however, for though perhaps a faltering step, they are none the less a step in the right direction.