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Middle East Brief

One Hundred Years of Middle Eastern Oil

Prof. E. Roger Owen

Oil was found at Masjed Soleyman in southwestern Iran on May 26, 1908, and three years later was piped down to a newly built refinery at Abadan on the Iranian side of the Shatt al-rab, not many miles below Basra.¹ Its global importance was immediately recognized, not just by the Admiralty in London, looking for new sources of supply for its oil-fired battleships, but in other European capitals as well—leading to a brief British-German-Turkish skirmish for control of the pipeline at the start of World War I.²

Oil also played an important role in the struggle after the war over the future of the Ottoman province of Mosul, where a large oil field was eventually discovered in 1927 at Baba Gargur near Kirkuk in the new, British-mandated Iraq. Oil was next found in the Persian Gulf, beginning with Bahrain in 1931; there were subsequent discoveries in Kuwait, Qatar, Saudi Arabia, the Trucial States (Abu Dhabi and Dubai), and Oman. By 1960 the smaller Gulf states were producing 15 percent of the world's oil, with another 10 percent or so coming from Iraq and Iran.³ By 1970 this had risen to 30 percent.⁴

The story of the discovery, exploitation, and importance of Middle Eastern oil has been told in many different ways, and from many different points of view. For some it has been a source of Western triumphalism—as in the case of the Aramco story, in which brave Texas “pioneers” conquer the world's last oil frontier.⁵ For others, like the Arab novelist Abd al-Rahman Munif, it is a tale of woe, as the lives of nomadic people are disrupted by the appearance of prisons and exploitative local officials.⁶ For still others, it amounts to a local success story, wherein the embryonic nation-states of the Gulf learn to challenge Western oil companies in such a way as to force them both to pay more for the oil and, beginning with Iran in 1951, to surrender control over this vital national asset.

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Oil has also been widely seen as a weapon, as it has served as a source of funds both for the financing of international terror and for the pursuit of eccentric and often nasty social experiments by dangerous governments (like Colonel Qaddafi's Libya). And it is regarded as one of the major influences behind global warming and environmental degradation.

Nevertheless, if any one perspective is likely to dominate the vast volume of writing which the one hundredth anniversary of the discovery of oil in Iran will certainly encourage, it is oil as a species of so-called "resource curse." By this is meant an unhappy form of rentierism that has distorted the lives of citizens in the countries that produce it, making them not only more materially minded and more subject to authoritarian governments, but victims of an uneven and unsatisfactory process of economic development as well. As a Saudi official—probably the one-time minister of oil, Zaki Yemani—put it a generation ago: "All in all I wish we had discovered water."⁷

I am almost equally sure that the notion of a resource curse will be applied exclusively to the Gulf, with only a nod to the exporters with larger populations and economies—like Iran and contemporary Iraq, where there is still Anglo-American pressure to break up the Iraq National Oil Company in the interests of preventing its use to create yet another authoritarian regime like that of Saddam Hussein. Just as likely is that next to nothing will be said about later arrivals to the ranks of oil-exporting states, like Egypt and Syria.

In what follows I will begin by challenging some major tenets of the "resource curse" literature before providing an alternative perspective: first with respect to the role of oil in the Middle East, then regarding its huge impact on the twentieth-century world.

Oil: Capital or Curse?

In recent years there has been a large body of mostly Western writing devoted to the notion that access to the revenues produced by a single raw material constitutes a sort of serious curse. In their review of this literature, Erik Wibbels and Ellis Goldberg identify eleven distinct causal narratives linking resource abundance to undesirable political and economic outcomes from the point of view of development.⁸ They also note how difficult it is to test such hypotheses, and how the theory itself has been what they call "stuck in neutral" for the last decade.⁹

Wibbels and Goldberg make two essential points. The first is that according to international trade theory, as well as what we know of economics and economic history in general, oil is no different from other goods, and so is subject to the normal rules of comparative advantage, enabling those who produce it to grow at a much faster rate than they otherwise would.¹⁰ Second, on the basis of their data from the oil-producing states of the United States, notably California and Louisiana, they find some relationship between resource abundance and political success, because of the opportunity such abundance affords "officials to buy public support and build patronage networks."¹¹

It should be noted that parts of the Wibbels and Goldberg position have been supported historically by some Middle Easterners themselves—notably Hossein Mahdavy, the first major proponent of the rentier thesis as it might be applied to Iran and, by extension, to other oil-producing states.¹² Mahdavy sees oil revenues as providing much-needed capital for development, particularly the development of industry—but in the context of what can easily become "socio-political stagnation and inertia," owing to blatant inequalities of income and the dampening down of the urgency for political change.¹³ Later writers, like Giacomo Luciani, either amplified Mahdavy's insights or used them to ask further questions about the relationship

between oil and development and between oil and foreign policy.¹⁴

The result was a growing focus on other alleged political effects of rentierism about which Mahdavy had very little to say: for example, the way in which oil revenues can be used to build up domestic political support via the collection of few or no taxes and the provision of subsidies and handouts in such a way as to discourage demands for representation. Arguments of this type are at the center of what Jill Crystal and Kiren Chaudhry have to say about Kuwait and Saudi Arabia—in the context of a previous political history of some pluralism, based on the reality that before oil revenues became available, ruling families had to obtain revenues from local merchants, farmers, and herders, practices which then came to an end once oil revenues began.¹⁵

On the economic side, however, it is not possible to show that oil rentierism necessarily leads to one form of development rather than another—except, perhaps, in terms of the pressure it engenders to diversify economic activity against the day the oil might run out. What reliance on oil does do, though, according to Chaudhry, is encourage a discontinuous construction of domestic political and economic institutions as a result of periodic ups and down in both production and price.¹⁶

Some Arab writers have given attention to the use Arab countries made of their oil revenues. For example, a Centre for Arab Unity Studies report entitled *The Future of the Arab Nation* noted that in the 1980s, Arab oil-rich states kept the balance of their financial surpluses outside the region, mostly in the United States and Europe—thus tightening the West's grip on the petroleum-exporting countries while allowing the West to divert its own resources toward finding energy substitutes.¹⁷ The title of a book by Nadar Fergany published by the Center in 1980, *Wasted Resources*, makes the same point. For Arabs living in countries with little or no oil, the alleged misuse of oil revenues by the oil-rich states was a source of considerable irritation and gave rise to attempts to persuade oil state rulers to use their revenues to promote greater regional economic integration in the interests of general Arab development.

Oil and Political Economy: Small "Allocation" States versus Large "Production" Ones

Giacomo Luciani has made a second helpful contribution with his distinction between "allocation" states, wherein income from oil constitutes a substantial part of total revenue, and what he calls "production" states, in which revenues come from many diverse forms of domestic economic activity.¹⁸ In the former, the state receives oil royalties directly, and is deemed free to allocate resources to sections of its own population without restraint. In the latter, the fact that the state has to obtain its revenues from the working population involves some process of bargaining

and mutual concessions, and suggests a link between taxation, or the lack of it, and representation.¹⁹

I will now use this classification to suggest an alternative way of analyzing the economic history of the oil-producing states in terms other than those of a resource "curse," with the important proviso that Iraq and Iran, while starting off as "production" states with some oil, may be said to have moved into the category of "allocation" states as a result of the oil price increases of the 1970s. (In the case of Iran, oil exports were contributing three-fourths of government revenues by 1975–77.²⁰)

For most Middle Eastern oil producers, the arrival of oil coincided almost exactly with the beginnings of the creation of the modern state.²¹ As a result, the growth of these states and of their oil revenues took place together, in a symbiotic relationship that makes it virtually impossible to imagine one without the other. This can be seen most obviously in the case of the smaller Gulf states—where, rather than disturbing the existing patterns of rule, oil served to reinforce them by underpinning a system of interlocking interests, privileges, and monopolies that held their expanding societies together.²² The result, as Luciani wisely pointed out, was that domestic politics consisted almost exclusively of the allocation of oil revenue, and foreign policy amounted to using that revenue to purchase outside protection while avoiding hard-and-fast commitments to these states' larger neighbors.²³

Hence it is meaningless to blame oil for the general lack, so far, of Western-style democratic institutions or of civil society organizations, like professional associations or trade unions, that are assumed to be their major support. By the same token, it is also unreasonable to suppose that such organizations and associations might not appear in time—just as they did in some of the Gulf states in the past—as local societies become more differentiated and competition for local resources becomes more intense.

Luciani himself suggests one possible mechanism by which such change might occur, with his significant observation that those in power come under sharp criticism if they fail, or are widely believed to fail, to take full advantage of the income they receive from the rest of the world.²⁴ An obvious example can be found after 1990–91, when most Gulf ruling families, particularly those of Kuwait and Saudi Arabia, came under intense popular pressure owing to their failure to use their substantial oil revenues to defend themselves against Iraq, therefore they were forced to call in outsiders, particularly the United States, to protect them, at even greater expense.²⁵ The result, in terms of a revived parliamentary life in Kuwait and the establishment of an increasingly independent-minded Shura (Consultative Council) in Saudi Arabia, demonstrates the presence of elites eager to participate in their country's decision-making processes.

The relationship between oil and politics in Luciani's larger "production" states has been more complex. For several decades, their revenues were simply not large enough compared with other sources (such as taxes) to have a critical impact on these countries' politics. What oil did promote, however, was the beginnings of modern industrialization—including, for a short period, support for the existence of trade unions and Communist parties. Change came in the 1970s, when oil began to provide such a high proportion of government resources that Iraq and Iran began to take on some of the major characteristics of their smaller "allocation" Gulf neighbors. The result was the introduction of an intensified form of patronage politics, controlled directly by Saddam Hussein in Iraq and by the Supreme Leader and his clerical allies in Iran. But, of course, the matter did not end there. The end of the Saddam Hussein regime and the various pressures for political change in Teheran after the death of Ayatollah Khomeini not only produced new sets of political forces vying for control over oil but also ensured that the play of the different interest groups involved was strong enough to encourage an often vigorous parliamentary life.

As with politics, so it was with economics. Oil has had a far-reaching effect on the management of the "allocation" economies, subjecting them to two distinct logics: one of distribution, the other of diversification. Both can be seen at work in the first comprehensive attempt to address the problems and opportunities of the oil era, in what can be called the Kuwaiti model. Realizing early that the ruling family could not just sit on their new oil wealth—or, worse still from its point of view, be forced by the British to deposit it in a dollar account in the Bank of England—the Al-Sabahs introduced a system of reverse taxation.²⁶ Instead of citizens paying the state, the state paid and supported *them*, in the form of a mini-welfare state embracing employment, education, health care, and subsidized housing. At the same time, the state created a set of monopolies for its own nationals—most importantly, the exclusive right to own businesses and property—as a shield against sharing too much of its wealth with the huge numbers of imported migrant workers. The same model was soon adopted by the other states up and down the Gulf, where it remains largely in place, although modified in certain states—notably, as far as the restrictions on non-nationals are concerned, in Dubai.

The Kuwaitis also made an early attempt at the type of diversification that was thought necessary to ensure a steady, alternative stream of income once supplies of oil began to run out. As early as the 1970s, however, it became clear to both the ruling family and the members of the political elite that the state could earn more by investing in industries abroad than by financing what were by necessity small-scale projects designed to meet the needs of a tiny domestic market. As Crystal notes, by the early 1980s, Kuwait was earning more from foreign investment

than from oil—which amounted to another form of rentierism.²⁷

States with much less oil than Kuwait were forced to attempt more serious models of diversification. In the case of Bahrain, the state took advantage of the fact that its neighbors, notably the Saudis, were slow or, in some cases, unable to develop financial and insurance markets by creating a profitable service industry to fill the gap. Bahrain also sought to take advantage of its comparative advantage of a combination of cheap fuel and cheap energy to develop an aluminum smelting facility, for which the regional construction boom provided a growing market.

Dubai took the Bahrain model many stages further. Beginning with a deep-water port and then an airport, it was able to transform itself into a highly successful, ever-growing regional hub for trade and commerce, as well as a business-friendly home for international banks and funds and a tourist-friendly resort. Central to the whole project were the entrepreneurial activities of the ruling family, the Maktoums, and a policy of promoting internal competition among the various government agencies they had imported from Singapore. The result was the creation of organizations with such high levels of managerial expertise that entities like Dubai Ports World and Dubai Aerospace were able to expand globally, acquiring international rivals and selling their expertise to ports and airports round the world.

As pointed out above, the "production states" can be said to have gone through several phases of oil-related economic development until they themselves assumed many of the characteristics of their "allocation" neighbors. Thus, oil played a small role in financing the Iraqi and Iranian development plans of the 1930s and a much larger one vis-à-vis those of the post-World War II era, with their large investments in industry and in improving rural infrastructure. In the 1970's, when much larger revenues were available, they were subject to two interrelated processes that made a diversified approach much more difficult. One was the advent of problems associated with their own version of the so-called Dutch disease: wage and price inflation, urban drift, and a bias against local production, both agricultural and industrial, in favor of imports. The other was what Abbas Alnasrawi has called "the end of development": that is, the abandonment of any central direction of the economy in favor of its fragmentation into isolated spheres, each controlled by a group of persons subject to the direct control of the President or "leader." This process was further accentuated by the Iranian revolution, and by the Iran-Iraq war and the international sanctions and boycotts that followed.²⁸

In such a system, oil is king, and the revenues it generates become an essential part of the means of exercising political control.²⁹ By the same token, any outside state wishing to bring down such a regime aims to destroy the production and exporting capacity on which such power depends, as

happened during the 1980s “tanker” war in the Gulf and the period of sanctions that followed. The results, however, have generally been counterproductive: Far from weakening the system of politically purposeful economic fragmentation, they have served only to make it much stronger.

Oil and Arab Intra-Regional Politics

Luciani has one additional insight that speaks directly to the role that oil could have played, but did not, in a process of Arab economic integration. His argument is twofold. On the one hand, it is in the interests of the smaller oil producers to use their revenues to buy oil from the cheapest world markets, and not to be tied to purchase it from their Arab neighbors. On the other, for several decades they invoked a form of Arab good-neighborliness to try to keep from being controlled by the stronger states in the region.³⁰ The result was that the huge exchanges of migrant workers from the oil-poor states to the oil-rich ones in exchange for aid, investments, and remittances was largely unplanned and never brought under any systematic control.

This was, of course, bad news for those Arab nationalists who wished to use oil as the basis for a process of Arab economic integration, as can be seen from the fate of Prince Hassan of Jordan’s “labor compensation” initiative in the late 1970s. Hassan had hoped by this scheme to persuade labor importers to pay for the educational costs of those well-educated Jordanians, Palestinians, and others they wished to employ—something they had no interest in doing. (Indeed, they had no need to do so, as they knew that the high wages they were paying would attract sufficient labor without a binding agreement or advance planning.³¹) A similar fate awaited the stillborn project inaugurated by the so-called Damascus Declaration of 1991, by which the Gulf states undertook to subsidize the Syrian and Egyptian armies so as to defend them if they were again subject to outside attack, as they had been by Iraq the year before. This idea was quickly forgotten as the two countries scrambled to pay for the less immediately dangerous protection they could buy from the United States, Britain, and France.

We can view all of this as part of a long process by which the oil states of the Gulf are detaching themselves from the Arab world in their quest for the larger global opportunities that Dubai, in particular, has managed to exploit so well. Compared with many other successful port-city states in history, those of the Gulf have only a relatively small economic hinterland to exploit vis-à-vis the opportunities to be found across the seas.³² Nevertheless, there are limits to this process of disengagement. It is not just bonds of language and religion that continue to provide significant links between the Gulf states and the wider Arab world, but also the material ties stemming from their employment of Arab labor and their increasing interest—particularly since 9/11 and the recent rise in oil revenues—in investment opportunities in rapidly growing economies like those of Egypt and North Africa.

The Other Part of the Oil Story: Its Effect on Consumers

In 1971, oil supplied 41 percent of the world’s energy;³³ it now supplies just under 40 percent.³⁴ This gives it a unique place in the global political economy, in which it is both taken for granted and at the same time capable of arousing the deepest fears about its continued supply—as well as, more recently, about its huge impact on climate change and environmental degradation. Oil thereby makes everyone in the world a spectator to, and occasional participant in, two great debates. One is over whether consuming nations should buy the oil they require on the market or find alternative ways of securing their supplies by political or military means. The other concerns whether oil can be replaced by some more environmentally friendly source.

This is only part of the story of oil, however, from the consumer’s point of view. The vast majority of consumers are really only aware of the issues involved in connection with oil when there is a crisis which threatens their supply—most often a war, like World War I: It was then that oil first became a vital strategic asset and the subject of enormous efforts to ration and protect it, on the one hand, and to interdict and destroy it, on the other. Yet few scholars have gone beyond this rather obvious fact to analyze, not just what oil means to modern warfare and the modern economy, but also how it has affected almost every aspect of twentieth-century political and social life.

One arresting way of approaching the subject might be to pose the question: What would the world have looked like without oil—or, in our case, without Middle Eastern oil? This in turn would require going beyond a study of its effect on such important realms as transportation to ask more profound questions, regarding how the reorganization of the world’s energy systems, from wood to coal and then to oil, has made possible what Timothy Mitchell calls “the novel forms of collective life out of which mass modern politics developed.”³⁵ First came coal as a vital ingredient in the creation of industrial cities, and with it the increasing concentration of the population in urban areas. That, argues Mitchell, stimulated mass democracy by affording bottom-up power to key groups of workers who, backed by the threat of strike actions, could insist that their voices be heard and their demands met. Then came oil—which, at least initially, gave those workers involved in its production something of the same sort of power. In the longer run, however, the fact that oil needed fewer workers than coal, and could be moved around with much greater flexibility, led, Mitchell contends, to the defeat of the unions—and, in Europe, of the Communist parties associated with them.

This is, of course, only one way of making a whole series of connections between oil and the political process. Another would be to see control over oil as part of the hegemonic project begun by the United States at the end of the Second World War. Officials in Washington started to think, then, about not only oil in general, but specifically Middle East

oil, as a weapon for weaning Europe from its dependency on coal, in the interest of undermining the political influence of miners and their associated political parties.³⁶

Conclusion: Oil's Next Hundred Years

OPEC (which has a few member states outside the Middle East) now produces 40 percent of the world's oil and possesses 70 percent of its reserves—some of which, according to present estimates, should last for well over another hundred years. This assures the Gulf states, as well as Iran and Iraq, of a continuing global importance far beyond their still puny domestic economic strength, so long as: 1) oil, however environmentally damaging, is perceived as a more useful fuel than coal; 2) the cost of alternatives, like wind and biofuels, remains high; and 3) nuclear power stations continue to be beset by environmental and other political concerns.

Estimates of the world demand for oil increasing by 50 percent by the year 2030 make just the same point.³⁷ To take the case of Saudi Arabia alone, present forecasts suggest that it will have to double its oil exports in the next decade if the constantly expanding global need is to be fully met.³⁸ Statements made by Abdullah Jum'ah, the chairman of Saudi Aramco, at Harvard University in 2007 suggest that his company intends to rise to the challenge. But it will not be easy. On the one hand, Saudi Arabia and most of the other Gulf producers face daunting technological challenges as far as the management and development of new oil fields is concerned, the more so as there are important sections of their elites who do not want output to be increased in a way that involves entering into production-sharing agreements with foreign oil companies. At the same time, with OPEC members' own domestic consumption growing at 2.5 times the global average since 2000, they will have progressively less oil to export.³⁹ In Iran, for example, with local consumption rising by an annual 5.2 percent, the government was forced into the politically difficult decision to introduce gasoline rationing in 2007 in the face of estimates that it would otherwise have to suspend oil exports entirely by 2040.⁴⁰ No wonder the building of nuclear power stations is seen as an increasingly attractive alternative, and not just in Teheran.

What are the consequences of all this for the rest of the world?

First, there will be an intensification of international competition for Middle Eastern oil supplies, in which the national oil companies of states like China seem destined to play a more and more important role. This in turn will make a significant contribution to enhancing the Gulf region's growing connections with Asia, with respect to markets, investments, and joint ventures. One immediate effect will be to solve the present problems posed for Gulf producers trying to gain access to the still highly protected European petrochemicals market: They will look east to Asia for an alternative outlet.

Second, given the enormous technical difficulties that oil-producing countries now face in terms of managing their existing wells and exploiting new fields, there will be pressure for the return of the international oil companies, forcing producer governments to make some concessions in terms of production sharing—and, perhaps, even to reverse, to some degree, their previous drive toward total ownership and control.

Third, the oil states will make increasing efforts to help the poorer states of the world with their energy problems, particularly those in Africa with largely Muslim populations. Not only are those states already threatened by desertification and floods, but the value of the aid they currently receive is also being entirely wiped out by increases in the price they have to pay for their oil. According to the International Energy Agency, a rise of \$10 a barrel costs sub-Saharan Africa 3 percent of its GDP.⁴¹

Fourth, Middle Eastern producers will increasingly be tempted to offset some of their energy needs by developing alternative energy sources, such as nuclear and, beyond that, solar power. In 2007 there were over twenty nuclear reactors being built in the world, the majority outside Europe and North America, and it is known that a number of Arab states, notably Egypt and Saudi Arabia—as well as, of course, Iran—have shown considerable interest in adding their names to this list.

Finally, as the smaller Gulf states like Qatar, Bahrain, and Abu Dhabi seek to emulate the Dubai model, competition between them will inevitably increase, possibly to the extent of their attempting to harm their neighbors' economies in politically damaging ways. Most of the Gulf has enjoyed a reign of peace and stability, without major acts of terrorism, over the last two decades, but there is no reason to suppose that this can continue forever. Meanwhile, there is nothing to stop other port cities in other parts of the Indian Ocean from developing their own competitive versions of the Dubai model.

For all these reasons and more, there seems little doubt that oil will continue to play as significant a role during the next century as it did in the last. Its Middle East producers, whether they like it or not, will remain a focus of political and economic interest on the part of, and possible interference by, outside powers. And they will be involved as well in increasingly intense discussions about oil's ambiguous role in a world that has been quick to criticize oil's effect on the environment while slow to develop viable alternatives. As if this were not enough, they will have to answer increasingly challenging questions from their own populations about the management of their oil reserves and the use of their oil revenues. It will make for another extraordinary story.

Endnotes

I would like to thank the following for their advice and for allowing me to quote from yet to be published papers: Ellis Goldberg, Tim Mitchell, and Kevin Rosser.

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- 15 For example, Jill Crystal, Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar (Cambridge: Cambridge University Press, 1990); Chaudhry, The Price of Wealth, p. 16 and pp. 313–14.
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- 18 *Ibid.*, pp. 71–73.
- 19 Luciani, “Allocation vs. Production States,” p. 77.
- 20 Massoud Karshenas, Oil, State, and Industrialization in Iran (Cambridge: Cambridge University Press, 1990), p. 82, Table 3.4. Comparative figures for Iraq do not exist, owing to the Ba’thi-enforced secrecy of the time; but given the fact that oil revenues contributed 63 percent of Iraq’s GDP by 1979, it is likely that oil’s contribution to total government income was greater in Iraq than

in Iran by 1980. See Phebe Marr, The Modern History of Iraq, 2nd ed. (Boulder, CO: Westview Press, 2004), p. 161.

- 21 Rosser, “Middle East Oil at 100,” p. 2.
- 22 The ruling elites in these countries bear a considerable likeness to those described in the “type of political economy arrangement” that Douglass C. North, John Joseph Wallis, and Barry R. Weingast call a “natural state.” See their “[A Conceptual Framework for Interpreting Recorded Human History](#)” ([National Bureau of Economic Research, Working Paper 12795](#)), pp. 17–21.
- 23 Luciani, “Allocation vs. Production States,” pp. 80–83.
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- 25 See F. Gregory Gause III, “Representation and Participation,” chap. 4 in Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States (New York: Council on Foreign Relations Press, 1994).
- 26 Britain was experiencing an acute post–World War II dollar shortage and made strenuous efforts to lay its hands on the earnings of its oil-producing dependencies, like Iraq and Kuwait.
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One Hundred Years of Middle Eastern Oil

Prof. E. Roger Owen

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