

15. How Sunni Capitalism Can Trump Sunni Insurgency

PRIVATIZING IRAQ'S lucrative oil assets and vesting every Iraqi citizen with an equal number of shares can provide tangible incentives for every Iraqi—including Sunnis, who are the insurgency's core supporters—to view security and commerce as a better path to follow than insurgency and violence. Every Iraqi would own a piece of Iraq, providing Iraq's 28 million citizens with a prospective increase in per capita annual income of about \$5,800, a substantial boost.

This is unlikely to persuade the hard-core, committed al-Qaeda/Zarqawi terrorists to change course. But turning all Iraqis into stockholders in the nation's oil wealth can win over the support of the bulk of the Sunni population that now backs the insurgency by providing foot soldiers, intelligence, cover, safe houses, or simply passive acceptance.

Iraq's oil reserves, estimated at 115 billion barrels (bbl), are the world's third largest, after Saudi Arabia and Iran (263 bbl and 133 bbl, respectively). The location of these reserves within the

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ethnically divided federal Iraqi state, however, presents a problem. About 80 percent of the oil is located in southern Iraq, where the Shia who constitute 60 percent of Iraq's population predominate; about 15–18 percent of the oil is in northern Iraq, where the Kurds, who constitute 20 percent of the population, are concentrated. The problem is that less than 5 percent of Iraq's lucrative oil reserves are located in the three provinces in central Iraq—Al-Anbar, Nineveh, and Salahuddin—where most of the 20 percent of the Iraqi population that is Sunni lives.

In a federal, democratic Iraq whose majority population is Shia and whose most lucrative assets are located in areas where Shia and Kurds predominate, it is not surprising that Sunnis have a dim view of their future. Their future appears even gloomier when benchmarked against the twenty-five years of Saddam's rule in which Sunnis had it all: privilege, status, as well as the oil assets, regardless of their geographic location.

A readily though perhaps not easily available financial innovation can go a long way toward redressing this portentous Sunni outlook.

At present Iraq's oil assets are a government monopoly. Privatizing these assets and giving every Iraqi an equal share in their ownership can be accomplished by turning over the assets to private companies—perhaps two companies in the South and one each in North and Central Iraq—and vesting all Iraqi citizens with equal shareholdings in each company, for example, 5 shares or 10 shares to each Iraqi in each company. Shares could be traded at market-determined prices, but trading would be limited to Iraqis, at least for an initial period of, say, five to ten years, after which the market might be opened to foreign participation.

In effect, the new stock issuance would be an exclusive public offering (EPO), issued gratis to Iraqis on an equal per capita basis. Company management would be responsible to shareholders in accord with the guidelines of sound corporate governance. Cor-

porate earnings and dividends achieved by management for the benefit of shareholders would affect share prices as well as management tenure and compensation. Assuming full disclosure and certification of financial reports to shareholders and independent corporate directors, laggard management performance would result in management replacement. Government would derive revenues by taxing corporate and shareholder income.

What would that be worth to Iraqis? Assume that oil reserves in the ground are valued at \$20 a barrel, and assume further that 30 percent of the total asset value is mortgaged and absorbed up front to finance new and replacement infrastructure investment in the newly formed companies. The remaining book value for each Iraqi's total share holdings is estimated at about \$58,000. A conservative ratio of return to net asset value of, say, 10 percent would yield for each Iraqi citizen an annual income of \$5,800. For a Sunni family of four this would represent a large increment in its annual income.

Sunnis would not be confined to the 20 percent of the shares they'd receive from the initial EPO in accord with their proportionate size in the Iraqi population. They could trade up and acquire additional shares, as, of course, could other ethnic groups of Iraqi citizens, depending on their financial capabilities, business acumen, and career aspirations.

The numbers suggest an enormous opportunity for family betterment through schooling, health services, housing, and community improvement. Although this brighter future would not turn the committed jihadists, it could change the environment in

which they operate by attracting the majority of less committed or uncommitted Sunnis.

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Before and after writing this proposal I have repeatedly thought that a missing ingredient in Iraq strategy has been a determined and high-priority effort to elicit mutual self-interested cooperation among the ethnic communities in conflict. Iraq's huge oil resources provide the most important vehicle for doing this. Among the various proposals for addressing this matter, the one described in this essay seems to me the best. Despite acknowledgment of the idea by U.S. policy officialdom, no evidence of implementation efforts has ensued.