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BOOK REVIEW

OIL MONEY AND THE WORLD ECONOMY.¹ By Yoon S. Park,²
Boulder, Colorado: Westview Press, Inc., 1976, pp. v, 205.

*Reviewed by Maria R. Lorts**

Among the most far-reaching economic events of the last two decades has been the action taken by the OPEC countries in quadrupling the average price of crude oil. In causing a serious disruption of the world economy and stability, OPEC's decision brought on a plethora of Cassandra-like predictions of global economic disaster. This book is not to be numbered in their lot. Rather, it represents a comprehensive evaluation of the specific economic factors which led to the oil price increase and its effects on the world economy.

A cursory leafing through the pages raises a presumption that the book is a text on micro-economics; that is, it is replete with charts, algebraic equations, schedules and economic models. Such data point toward the great amount of detailed study and research that underlies the analysis in the book. In his effort to make economic sense from the disruptive effect on the World-Politik, the author utilizes only scholarly and analytical tools of economic theory without the coloring of political journalism. Nevertheless, the reader should not be discouraged by the complex mathematical expositions used to describe various economic models, for they are only the "icing" and can be glossed over without losing the impact of the book.³

The author's goal is to put the oil crisis in perspective by first examining how the crisis came about and how it might evolve in the future. Specifically, its concern focuses on the evaluation of the oil price increase in the period 1973-74, which caused serious repercussions to world-wide real income, inflation, standard of living, balance of payments, capital flow, international monetary reform, banking and finance.

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1. A version of at least one of the chapters has been published as a separate article. See *Economia Internazionale*, November 1975.

2. The author is Senior Economist in the Treasurer's Department of the World Bank and a Professorial Lecturer in international finance at Georgetown University.

3. A general understanding of the fundamental principals of economics would suffice for comprehension. The only exception may be the Technical Note in Chapter 4, which the author cautions, many readers may find convenient to ignore.

The International Monetary Fund sought to reestablish balance in world money markets which had been anything but stable since the sudden increases in oil prices began.⁴ Park examines these economic effects by tracing the evolution of the oil industry with emphasis on the factors which combined to spark the 1973 oil price revolution. His treatment of the creation of OPEC and the critical disenchantment of the Arab countries with the geopolitics of oil is particularly noteworthy in explaining the unusual suddenness of the oil price increase.⁵

A separate chapter is devoted to the complexities of oil-pricing, which was historically the main point of contention between oil companies and oil-exporting countries until 1973, when the latter took over the oil-pricing power completely. The author summarizes an emotionally charged political conflict with economic terms and consequences by discussing the ways in which government revenues of oil-producing countries are based on posted prices. For example, Park divides the history of price determination into three distinct stages.⁶ The first stage saw the oil-producing countries receiving royalties which were based solely on the volume of crude oil produced. These royalties were fixed and did not reflect the profits taken in by the oil companies. All this changed with the advent of a new law in Venezuela which adopted the fifty-fifty profit-sharing regime beginning in the 1950s. New oil producing companies were obligated to pay not only the royalties based on the production volume but also a 50 percent tax on the profits, calculated as the difference between the production cost and the posted price. In the third stage, the producing countries have direct participation in ownership of the shares of the concessionaire companies established by the oil companies. This participation by the producing country was originally known as the 75-25 profit-sharing arrangement, since a producing country and an oil company would each take fifty percent ownership of a concessionaire company.⁷

The author's purpose is not solely to establish the source of the economic woes of the 1970s but also to propose a new adjustment model which does not rely on conventional remedies such as currency devaluation

4. Oil-Related Payments Imbalances, Bank for International Settlements (Basle, Switzerland, March 11, 1975). According to the estimate by the U.S. Treasury, the OPEC "government take" of oil revenues was \$25 billion in 1973 and \$95 billion in 1974. See U.S. Treasury Dep't, *The Absorptive Capacity of the OPEC Countries*, Washington D.C., September 5, 1975.

5. See Abdul Amir Kubbath, *OPEC: Past and Present*, (Vienna: PetroEconomic Research Ctr. 1974).

6. Park, *Oil Money & The World Economy*, at 29, (1976) [hereinafter PARK]

7. The first 75-25 arrangement was concluded in 1957 between Iran and the Italian Oil Company ENI. Both the National Iranian Oil Company and the ENI took 50 percent interests in a new oil company established to exploit specific Iranian oil fields. Under this arrangement, Iran received 50 percent of the new company's profits plus the usual 50 percent tax on the ENI's half of the profits, resulting in a total take of 75 percent of the new company's profits. *Id.* at 31.

or deflationary domestic economic policies. Its rationale is that the international economic equilibrium has been shaken by the sharp oil price hikes to such a degree that the adjustment process is not amenable to traditional macro-economic demand management policies. Rather than using static tools to fit an ever changing solution, the proposed model considers adjustment toward internal and external balances as a dynamic process involving a trade-off between internal economic growth and external balance.⁸

This work is not an exhaustive or a definitive study of oil money and the world economy. It is merely an attempt to *identify* all the major economic issues connected with the oil crisis. The author should be commended for his successful attempt at defining the contours of the economic monolith rather than adopting the more "popular" piecemeal approach to an extremely complex problem.

Even though its appeal is primarily to the economic community, its scope should be of interest to both political and legal students of world balance.

8. *Id.* at 4.