**Dr. Steffen Hertog Talk Summary**

On September 25, 2012, the Center for Gulf Studies at the American University of Kuwait hosted a public lecture by Dr. Steffen Hertog, Senior Lecturer of Comparative Politics at the London School of Economics and Political Science, entitled “Diversified But Marginal: The GCC Private Sector as an Economic and Political Force.”

In his talk, Dr. Hertog examined the reasons behind why the private sector in the Gulf Cooperation Council (GCC) countries appeared to be successful in terms of employment generation, capital formation, and economic diversification, yet remains politically marginalized and largely dependent on the state.

Dr. Hertog attributed this phenomenon to the nature of the rentier state that characterizes most GCC economies and state structures. The GCC state is the primary driver of demand, and state spending is the main driver for economic growth within the private sector. Whereas most capitalist economies experience a mutually reinforcing cycle of taxes on the private sector that in turn fund state spending, in the GCC the lack of taxes serves to decouple the private sector from the state, creating a one-sided relationship where the private sector is dependent on the state and does not contribute to the financing of public services.

The private sector also employs mostly foreign workers and contributes little to national employment; most citizens remain employed by the public sector. It is public rather than private sector wages that fuel most of consumer demand, and state-owned enterprises usually provide the most productive jobs for nationals. As most wealth is privately held, the private sector also offers few investment opportunities for citizens. Local business experiences marginalization in economic policy-making and politics because it has few organic linkages to the national population at large.

There are several options available to the private sector that can, according to Dr. Hertog, alter the status quo. These include: an acceptance of taxation, the reforming of corporate governance, and most importantly, an increase in the employment of nationals through increased use of technology and improved human resources. Employing more nationals in the private sector, however, will also require a change in state policy to reduce the incentives among the local population for seeking public employment.

After his talk, Dr. Hertog took several questions. One attendee asked where the GCC states ranked in comparison to other countries in terms of their small to medium sized enterprises. Dr. Hertog responded saying there was little reliable data that categorizes the private sector on the basis of the size of the enterprise, but added that probably small to medium sized businesses make up a smaller share in the GCC than elsewhere. Much of the private sector is made up of large companies, and most of the small businesses that exist are run by expatriates who rely on locals who hold the business license and act as “silent partners”. The licensing law, Dr. Hertog added, removes incentives for exclusively local entrepreneurship.
Another question centered around whether or not a correlation exists in the GCC states between the how democratic the state is, and how favorable its policies are to private business interests. Dr. Hertog responded by saying such a correlation does exist, and compared the more socially marginalized population and very pro-business government policies of the United Arab Emirates, with the much more populist policies, yet economically stagnant government initiatives of Kuwait.

The Center for Gulf Studies (CGS) at the American University of Kuwait aims to promote greater cultural understanding of and increased intellectual interest in the Gulf, by facilitating free and open academic discourse on a range of issues that both shape and challenge this critical region of the world. The goal of CGS is to enable scholars as well as political and civil society actors both within and outside the region to contribute and add value to the burgeoning field of Gulf Studies, while at the same time informing and engaging the general public. To this end, the CGS encourages, supports, and cultivates interesting and original research on the Gulf, while regularly organizing a variety of public academic events such as lectures, roundtable discussions, and conferences.