



مركز بروكنجز الدوحة
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Kuwait: Taxing the Way to a Better Democracy

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Since the discovery of oil in Kuwait in the 1940s and the establishment of the country's cradle-to-grave welfare system, economic corruption has become rampant in the country. Embezzlement, favoritism, and nepotism – all favoring the financial gain of a few over the public interest – have become a common fact of life in the country.

Kuwait's political landscape has taken a sharp turn for the worse since 2005. The country has seen three parliament dissolutions and six cabinets over the past five years, and has also seen a decline in almost all international indices. Over the past five years, Kuwait's ranking in Transparency International's Corruption Perception Index (TICPI) has dropped significantly and despite the slight improvement in 2010 has failed to regain its pre-2007 ranking.¹ The Worldwide Governance Indicators, provided by the World Bank, have seen an overall drop, particularly the Regulatory Quality, Rule of Law, and Control of Corruption indexes.²

This deterioration has been aided by a complacent public that has not pushed for real reform in government accountability and transparency. The real problem is not a lack of legal or policy frameworks but rather one of public apathy. If citizens had a greater sense of ownership and investment in the country's resources, the outcome would likely be different. Kuwait's chapter of the Global Organization of Parliamentarians Against Corruption (GOPAC) outlined multiple reasons for economic corruption, including the “lack of anti-corruption resources and programs” and the fact that the “entire reliance of citizens on the governments to meet all their needs leads to the assumption that there are rights without responsibilities”.³

Similar to citizens in most rentier states, Kuwaitis feel like the mere beneficiaries of

1 “Corruption Perceptions Index 2010 Result,” Transparency International,

<http://transparency.org/policy_research/surveys_indices/cpi/2010/results>, 25 November 2010

2 “Governance & Anti-Corruption WGI 1996-2010 Interactive All Indicators Country Selection,” World Bank Group, <http://info.worldbank.org/governance/wgi/sc_chart.asp>, 25 November 2010

3 “Kuwait's Anti-Corruption Strategy,” Global Organization of Parliamentarians Against Corruption Report, <http://www.gopacnetwork.org/Docs/kuwait/Kuwait_Strategy_EN.pdf>, 25 November 2010

the country's oil wealth, not its owners. In the November 2005 Doha Debates, Hossein Askari argued for the motion: “this House believes that oil has been more of a curse than a blessing for the Middle East.” Askari, a former energy adviser to the Saudi Arabian government said, “If you look at the people, they want handouts. They are not interested in hard work any more, and I think that has happened because of oil. We see our leaders taking oil money without doing any work, and we say, ‘Why don't we get our share of it?’”⁴ There is the widespread belief that oil profits will be spent lining the pockets of a small political and commercial elite.

A more involved citizenry with a greater stake in government accountability and transparency could help transform Kuwait. Public apathy has fueled the spread of corruption in the country. Citizens have not been vigilant in demanding transparency and accountability from their representatives in parliament. Although Kuwait's National Assembly ratified the United Nations Convention against Corruption (UNCAC) in 2006, four years later it has yet to be implemented. Basic safeguards, such as conflict of interest and fiscal responsibility laws, have been discussed at length and appear to enjoy wide support in the country. Yet somehow both parliament and the government have been dragging their heels.⁵

The cycle of economic corruption in Kuwait continues as follows: citizens demand more money and benefits from the government due to the lack of development and low quality of services. The government services are substandard because of corruption within the government. The government is corrupt because, amongst other issues, parliament is not fulfilling its duty to hold the government accountable on spending. The parliament is not doing its job because the public does not demand it demonstrate results. The public is not

4 “This House Believes That Oil Has Been More of a Curse than a Blessing for the Middle East | Series 2 | The Doha Debates.” *The Doha Debates | Qatar's Forum for Free Speech in the Arab World*, 15 November 2010, <<http://www.thedohadebates.com/debates/debate.asp?d=23&s=2&mode=transcript>>.

5 “Press Release: Anti-Corruption Measures Not A Government Priority.” Kuwait Transparency Society, <http://www.transparency-kuwait.org/index.php?ind=news&op=news_show_single&ide=729>, 25 November 2010.

demanding enough of the parliament because citizens are able to receive more money and benefits from the corrupt government.

To highlight Kuwait's apathy problem, two cases will be discussed. The first, the defaulters fund, exemplifies the government's surrender to populist parliamentarians and squandering of millions against its will. The second, the KWD 37 billion (\$135 billion) development plan, highlights the lack of accountability or transparency demanded by parliament. If even a minor portion of these funds had come from citizens' income tax, it is highly likely that the parliament would have been more judicious in its suggestions and more exacting in its accounting.

The Defaulters Fund

To any observer of the Kuwaiti parliament, the degree of irresponsibility with which local parliamentarians treat the country's oil revenues is glaringly obvious. Since 2004, the populist parliamentarians' main agenda has been to transfer as many funds and benefits from the government to their constituents. In June 2005, the parliament voted to write off \$7,288 (KWD2000) of unpaid utilities bills and allow the outstanding amount to be paid by monthly installments capped at \$182 (KWD50).

By October of that year, what had started as a rumor became reality. The talk of a debt buy-out for citizens, fueled by populist parliamentarians and labor union leaders, turned into a written request for discussion in parliament. The request was signed by almost half the members of parliament.⁶ Much of the public debate in the media, on the internet, and in parliament brought up Kuwait's suggested Iraqi debt write-off. "Kuwaitis are more deserving of Kuwait's money than Iraqis" was a popular refrain at the time.

Despite assertions by the government that it would never approve a buy-out and that a

6 "23 MPs Sign Request for a Special Loan Buyout Session," Kuwait News Agency, 19 October 2005 <<http://www.kuna.net.kw/NewsAgenciesPublicsite/ArticleDetails.aspx?id=1798782>>.

restructuring of citizens' private debts would never happen, parliamentarians persisted. The issue snowballed with each of the three parliamentary elections held since June 2005, becoming a campaign hallmark for populist candidates. In a May 2008 survey of voters' priorities conducted by the Kuwaiti parliament secretariat, buying out citizens' loans came in as the fourth priority, mentioned by 28.3 percent of those surveyed. Notably, the same survey ranked protecting public funds at number 22 in terms of priorities, with only 3 percent listing it as number one. By 2009, the citizens' loans issue grew in importance, rising to third place on the list of voters' priorities, with 27.2 percent of those surveyed mentioning it.⁷

In December 2009, a bill to buy out and restructure citizens' private debts was approved by a slim majority in the finance committee and scheduled for a vote in parliament. The government declared that, if passed by parliament, the bill would be vetoed by the Emir. In the second round of debate, the bill was voted down by a razor-thin majority after members of parliament who had previously voted for the bill folded under government pressure and dodged the vote.

By January 2010, even members of parliament who had earlier been against loan restructuring were proposing what they considered more equitable solutions, such as providing each Kuwaiti family with \$36,443 (KWD10,000) as an interest-free loan.⁸

Meanwhile, in 2007, politicians had pressed the issue of citizen's debts to such a degree that the government was compelled to address it. The finance minister announced that the cabinet was drafting a bill to establish a "Defaulters' Fund" with almost \$1.1 billion (KWD300 million) to help those who were behind in their loan payments. Populist voices criticized the proposal, saying the amount would not help enough citizens and calling the fund's requirements too restrictive. Within six months, the parliament increased the fund's

7 "Opinion Survey Regarding Kuwaiti Citizens Priorities May 2009," Kuwait National Assembly, Web. 25 Nov. 2010.

8 "The Equitable Loan: 10,000 Dinars without Interest to Be Paid over 15 Years," Marzouq Alghanim Official Website, <<http://www.marzouq-alghanim.net/NewsDetails.aspx?n=113>>, 25 November 2010.

amount to \$1.8 billion (KWD500 million). Parliament passed the defaulters Fund bill in June 2010.

Had any of this money which parliamentarians were clamoring to distribute come from citizens' income, members of parliament would have been more stringent in their proposals.

KWD 37 Billion Development Plan

In February 2010, parliament approved a \$135 billion (KWD37 billion) economic development plan to be spent over four years, including investments in the oil and gas sectors, urban infrastructure, and transportation. Although the plan was the first to be unveiled by any Kuwaiti cabinet since 1985, its public reception was lukewarm at best. Critics found it overambitious given the government's modest abilities. The oft-repeated sentiment "we hope they actually develop the country while they pocket the 37 billion" became a common refrain. It came to be seen as a plan cementing the government as a benefactor for corrupt politicians, corrupt government officials, and a corrupt private sector.

The Kuwait Transparency Society has claimed in a press release that the cabinet has not made fighting corruption a priority this parliamentary session, suggesting that the government wants to wait until after the \$135 billion has been allocated.⁹ Repeatedly, the development plan has been criticized by members of parliament and political activists alike as an effort to rob the country.

The man responsible for Kuwait's economic development plan, the Deputy Prime Minister for Economic Affairs Sheikh Ahmad Al-Fahad Al-Sabah, has been dogged by

9 "Press Release: Anti-Corruption Measures Not A Government Priority," Kuwait Transparency Society, <http://www.transparency-kuwait.org/index.php?ind=news&op=news_show_single&ide=729>, 25 November 2010.

accusations of corruption.¹⁰ As oil minister, Al-Fahad faced charges after a parliament committee found him responsible for legal and financial violations in a contract with Tanmia, the company acting as the middleman between the Kuwaiti government and Halliburton, which had been selling oil to the U.S. Army at exorbitant prices. The case was closed by the Ministers Court due to lack of sufficient evidence.

Despite widespread distrust of both the development plan and its executors, parliament has still failed to prioritize passing a freedom of information initiative or any significant legislation ensuring transparency in government. Almost three times the amount of Kuwait's total 2009 revenue has been allocated to be invested in large projects without implementing safeguards to ensure the money is well spent.

Income Tax

A paradigm shift is needed to change the Kuwaiti public's perception of government spending. Implementing an income tax on Kuwaiti citizens will make them more invested in how, why, and where their money is being spent. Much of the literature concerning taxation and democracy agrees that taxation is necessary for government accountability.¹¹ Kuwaiti citizens, however, pay no taxes on income or business revenue.¹² Therefore, the relationship between citizens and public funds is a secondary one. Few Kuwaitis give any consideration to the money unless it is handed to them through payments, benefits, or grants. If an income tax were put into effect, the relationship with the country's wealth would be transformed. Citizens would have a first-hand interest in the government's revenue stream and allocation of resources.

10 Abdulrahman al-Anjari, "From Halliburton to Development...the Saatchi Route," *Al-Qabas Daily*, 9 August 2010, <<http://www.alqabas.com.kw/Article.aspx?id=627808&date=09082010>>.

11 Brian Whitaker, *What's Really Wrong with the Middle East* (Saqi Books, 2009).

12 Labeed Abdal, "Tax Law in Kuwait," The Law Firm of Labeed Abdal, 26 August 2009, <<http://www.hg.org/article.asp?id=6988>>.

Breaking the cycle

In implementing an income tax, Kuwait would begin to break the cycle of economic corruption and apathy. Kuwait's rent-based economy has all but killed innovation and initiative within Kuwait's citizenry. As Askari said in the Doha debates, "oil has been used as a crutch in this part of the world to avoid the reforms that are needed to create a vibrant private sector which would give ... productive jobs and generate revenues for the government. Instead, oil has been used to create less productive government jobs and to give subsidies which are wasteful in order to buy loyalty amongst the peoples of the region."¹³ An income tax system can be used to encourage entrepreneurship and revitalize a dying work ethic.

Since 2006, news of a cabinet discussion about income tax has been floated in the local press. The mere suggestion of an income tax has always been met with a fierce reaction from members of parliament. High costs of living, budget surpluses, and a low standard of services have all been cited as reasons not to implement an income tax.

It would be difficult to imagine the aforementioned examples – the defaulters' fund, and the \$135 billion development plan – taking the course that they did, had income tax revenue been part of the budget. The parliament would likely push for decisions in a completely different direction, spending more conservatively and with more oversight. An income tax could open up new possibilities, such as a demand for a smaller more efficient government – a notion which at this point is inconceivable, as the public sector remains the preferred sector of employment for Kuwaitis.

Detractors may say that for a country which pays 40 percent of its budget expenditures to wages and salaries of public employees, an income tax is an outlandish suggestion. Why would the government take from the citizens what the government gave in

13 "This House Believes That Oil Has Been More of a Curse than a Blessing for the Middle East | Series 2 | The Doha Debates," *The Doha Debates | Qatar's Forum for Free Speech in the Arab World*, 15 November 2010, <<http://www.thedohadebates.com/debates/debate.asp?d=23&s=2&mode=transcript>>.

the first place? Also, wouldn't a different type of tax be more effective in adding a second stream of revenue to the budget? Kuwait's problem, however, is not one of resources and will not be solved by throwing money at it. The point of the tax is not to collect revenue; rather it is to correct a problem of perception. A shift in the way Kuwaitis think about public funds will provide an opening to solving many of Kuwait's problems including its stymied development. Income tax is the great equalizer, as everybody contributes to the public pool. It is also the tax revenue stream least affected by corruption.

To be sure, the income tax will hardly be a panacea for all of Kuwait's problems. Nevertheless it would be an important first step. A paying population would be more engaged in fighting corruption and more invested in building sound democratic institutions. Discussions regarding government size, levels of taxes, and the quality of services need to be part of the public discourse; this can only truly happen if citizens are contributing a significant portion of the revenue and, in turn, have greater stake in the way their country is governed – and misgoverned.