

# Inequality in Arab States

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The following questions are important to address in any discussion on inequality, whether in Arab states or elsewhere: Should we be concerned about social and economic inequalities? What forms of inequality matter the most and why? How has the development process impacted these forms of inequalities? Finally, what can be done to reduce them? This chapter begins with a brief conceptual framework, reflecting on the first two questions from a regional perspective. Sections 2 and 3 address the third question. Section 4 provides some concluding remarks and policy considerations.

### Conceptual Framework<sup>1</sup>

The first question may seem absurd from an egalitarian perspective, but it is still a valid one, particularly if, as evidence suggests, there is a wage-led pattern of economic growth in Arab countries. Hence, even if we set aside equity considerations (and there is no reason we should), then a redistribution of income to workers in the lowest quintiles will result in both higher growth per capita and more rapid poverty reduction. Complementing this argument, empirical work from the IMF (Berg and Ostry, 2017) indicates that a low level of inequality may be essential to produce long and stable growth spells. In short, most

economists would agree there is a causal relation between inequality and growth, though the nature of this relation may not be perfectly understood and the direction of causality may differ depending on the theoretical framework. Likewise, country experiences in the context of health and education repeatedly informs us that progress in social indicators at the aggregate level is influenced not only by the quantity of public expenditure but also by its spatial and sectoral distribution. Hence, the case for achieving the Sustainable Development Goals (SDGs) is one and the same as that for reducing social and economic inequalities.

Turning to the second question, which forms of inequality are more important and why? A common view is to focus on inequality in income or expenditure or wealth. Indeed, the literature on outcome inequality in the region is already well established in the money-metric domain. Based on the World Bank (2015), the conventional wisdom is that inequality in expenditure is generally low and was in decline between 1990 and 2013. There is however a serious flaw with the conventional wisdom in that it does not tally with the story coming from national accounts. Many of the countries with a reported moderate level of Gini (such as Egypt, Jordan, Syria before 2010 and Morocco) record large and rising discrepancies in average expenditure between household expenditure surveys and household final consumption expenditures from national accounts. This suggests that inequality may be much higher and rising if we factor in the expenditure of the richest 1% in these countries (who are typically excluded from these surveys).

<sup>1</sup> This section draws upon a recent blogpost by ABU-ISMAIL, Khalid and RAMADAN, Racha. "Time to rethink inequality in Arab states" *The Forum. ERF Policy Portal*. ERF July 03, 2018.

Given the many limitations of cross-country money-metric poverty and inequality analysis, recently there has been a growing appeal for the use of multidimensional inequality, based on the Nobel Laureate Amartya Sen's capability approach.<sup>2</sup> According to this approach, poverty can be viewed as the inability (or lack of capability) to enjoy the basic rights and freedoms of life. Our approach to inequality is heavily influenced by this school of thought. This means that in response to the second question, our analysis in the report would give an equal importance to the non-income dimensions of health and education as to income inequality.

But whether money metric or multidimensional, the main question is to decide on which of the two main forms of inequality should be prioritized: inequality in outcomes or in opportunities? And why? Recently, most academic analysis of inequality are focused on inequality in opportunities. This attention is well justified. Inequality in outcomes (such as inequality in distribution of income, wealth, infant mortality, etc) does not account for individual responsibility for such outcomes, and recently there has been a growing consensus that societies seeking social and economic justice or equity in living standards should promote equality of opportunity by compensating the inequality arising from "circumstances" beyond the individual control, while at the same time, letting individuals bear the consequences of actions or "effort" for which they can be held responsible.<sup>3</sup> Moreover, both kinds of inequality are correlated, as the living standards where the individual was born may affect their future outcome (Assad et al, 2017). However, as noted by Atkinson (2015), the best way to reduce inequality of opportunity is to address inequality of outcomes. Furthermore, a comprehensive region-wide picture on inequality of opportunity is still not clear. Therefore, this article focuses mainly on outcome inequalities.

As for the third question; inequality between whom, i.e., inter-group inequality between selected social, economic, spatial and demographic groups (rich and poor, men and women, rural and urban, educated and non-educated, etc.), it is essential to understand the

underlying political economy challenges facing the region, particularly after the Arab Spring. In this brief chapter, we will focus mainly on the inequalities between rich and poor given the space limitations and given the central role of wealth and economic class differences in determining economic growth and political stability outcomes (ESCWA, 2015). Clearly this does not provide a full narrative of inequality in the region, but it nonetheless yields a crucial one.

### Inequalities between Arab States

Overall, the Arab region has witnessed considerable human capital gains over the past two decades as captured by the health and education components of the HDI. The average life expectancy in the Arab region increased from 64 in 1990 to roughly 72 years in 2017. The mean years of schooling also considerably rose from 3.1 years in 1990 to almost seven years in 2017. The rate of progress in the HDI would be even more spectacular if we add income and use 1970 as a base year.<sup>4</sup> However, as shown below, significant between-country inequalities underlie these average region-wide achievements.

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The Arab region is highly heterogeneous in terms of income per capita. Qatar, which has the highest HDI ranking among Arab countries, has a GNI per capita of around 117,000\$ (in 2011 PPP), nearly 80 times that of Comoros. The region is also conventionally thought of as richer than it is humanly developed. The average GNI per capita for the five Gulf Cooperation Countries with a very high HDI score

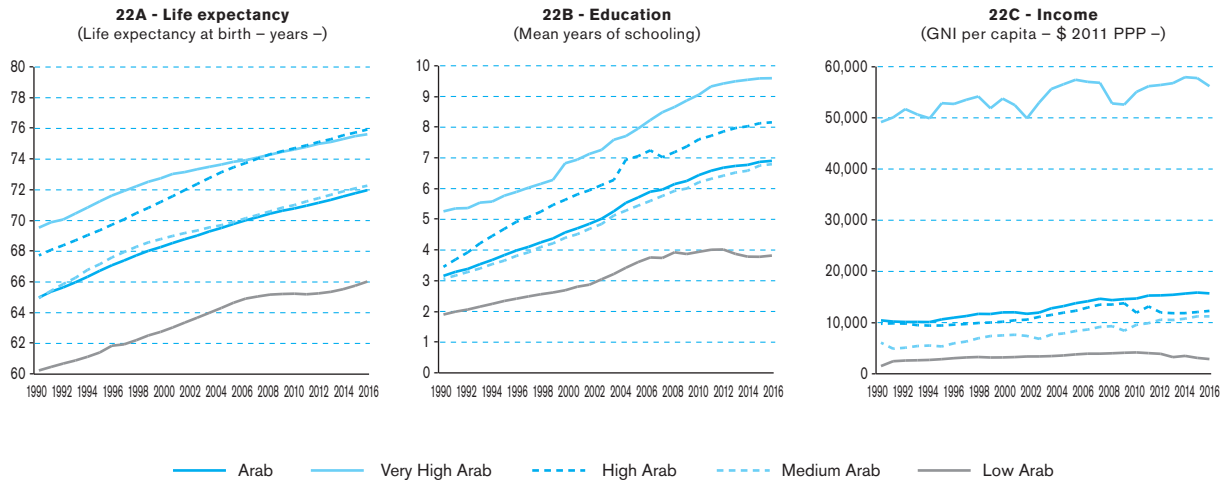
<sup>2</sup> See SEN, A. 1980; 1984; 1985; 1987; 1992; 1999, 2009.

<sup>3</sup> See ROEMER, John 1998, 1993 and ROEMER, John et al, 2003.

<sup>4</sup> See UNDP *Global Human Development Report*, 2010.

CHART 22

## Trends in HDI Component Indicators, 1990-2017



Source: Author's calculations based on HDI data

Note: Following UNDP HDR (2018), Arab countries are classified as follows: The low human development group includes: Comoros, Mauritania, Sudan, Syria and Yemen. The medium human development group includes Egypt, Iraq, Morocco and Palestine. The high human development group includes: Algeria, Jordan, Lebanon, Libya and Tunisia. The very high human development group includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

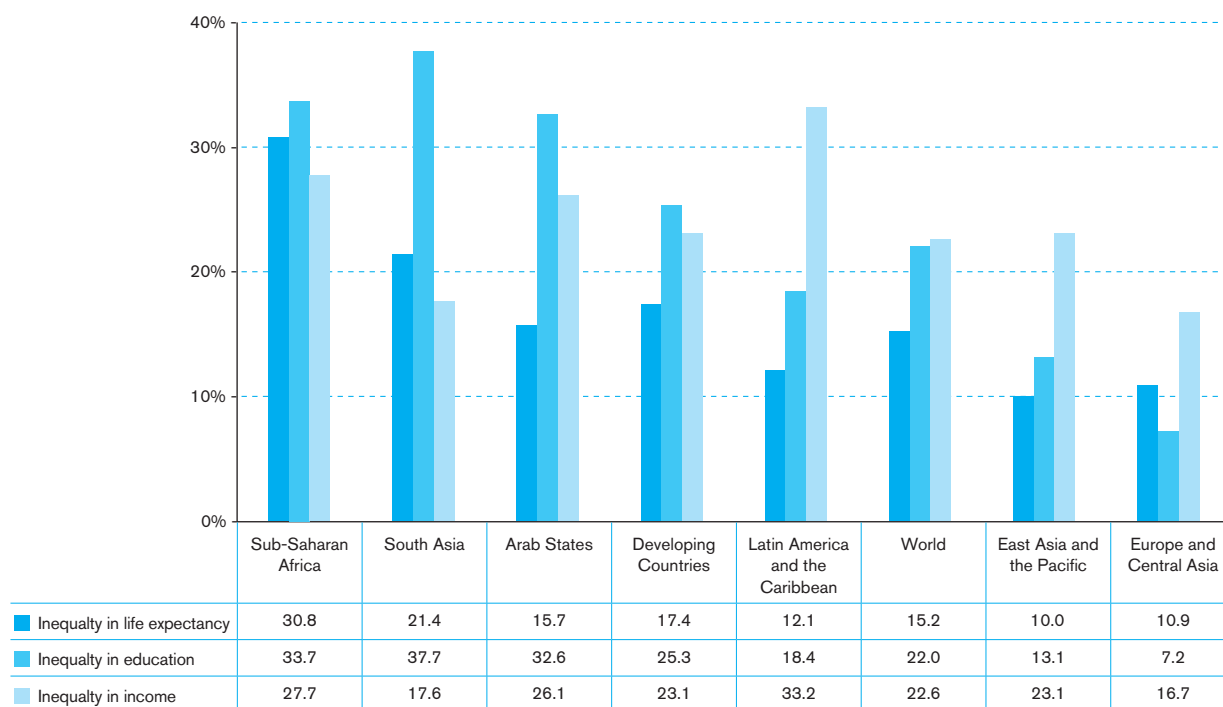
(above 0.8) is significantly higher than that of the OECD, but life expectancy in the latter is 10 years higher. However, Egypt, Palestine, Iraq and Morocco, the four countries which belong to the medium HDI category (score of 0.55-0.7) have a GNI per capita that is close to the average for developing countries, but have scored better education and health outcomes, despite the conditions of occupation, political instability and conflict conditions affecting some of these countries. The stylized fact that the region is richer than it is humanly developed does not apply therefore, if the resource-rich and very high-income group of GCC states are excluded. The remaining 15 states have health and education outcomes close to other developing regions with the same income per capita.

Charts 22A-22C clearly show that the Arab region had significant health and education gains, notwithstanding the slowdown in the rate of progress since 2010. However, average income per capita growth remained sluggish over the period 1990-2017, though there were significant sub-regional variations: in medium human development countries it doubled over the period, while it declined from \$4,170 in 2010 to \$2,835 in 2017 in low human development countries. This is unsurprising given the latter group consists of conflict-affected countries such as Syria, Yemen and Sudan, where protracted violence appears to be wiping away years of development gains, also ev-

ident in the decreasing trend in years of schooling for the low human development group since 2013.

### Inequalities within Arab States

Overall, the Arab region has high levels of sub-national inequalities in human development, especially in education and income. The Inequality-adjusted Human Development Index (IHDI) accounts for these within-country distributions of health, education and income among the population and “discounts” the dimensions of the HDI depending on the level of inequality. Factoring in these inequalities, the Arab region loses 25.1% of its HDI value in 2017 (slipping from 0.70 to 0.52). This adjustment from HDI to IHDI is one of the highest average losses globally, which places the Arab states just behind sub-Saharan Africa and South Asia in terms of inequality. Inequality in education accounts for the largest share of this slip. Country-level data shows that inequality in education is higher in the LDCs where the index exceeds 40%. Charts 24A-24C plot the annual change in life expectancy, education and income indices and their respective inequality results over the period 2010-2017. As shown, with a few exceptions for the least developed countries (LDCs) and conflict-affected countries, the majority of the Arab countries had both positive average annual growth rates and decreasing

Source: *ibid.*

wealth inequalities in those two indicators. However, inequality reduction was more pronounced in health relative to education. The picture is different if we consider income levels. Incomes measured in terms of GNI per capita have been generally stagnant since 2010 and inequality has increased for the majority of countries (Chart 24C). Besides, inequality would further soar if we consider the gaps between GNI per capita and average household income. In many countries in the Arab region there are weak linkages between aggregate growth and the growth in household income, and thus increases in national income are often not transmitted to higher household income.

The question then arises: Where or to whom is this income allocated? To answer this question, we must look beyond the conventional measures of inequality such as the Gini coefficient or similar measures (e.g. Atkinson) derived from household surveys, as they largely fail to capture total income distribution, in particular among the top decile. Alternatively, the World Inequality Report database relies additionally on national income and wealth accounts, fiscal data from taxes on income and some other sources. It reports that the Middle East ranks first in income inequality with

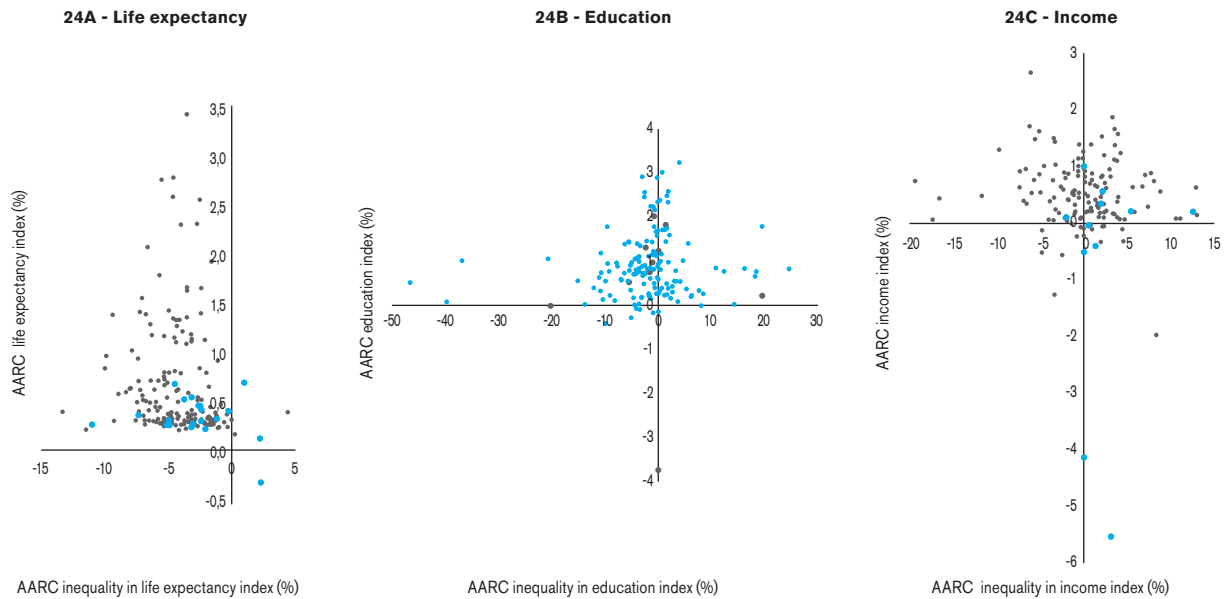
61% of pre-tax national income being captured by the top 10% of earners (World Inequality Report, 2018).

### Concluding remarks

There are two main conclusions. Firstly, differences between countries in levels and progress rates of human development achievement are quite significant, especially in education and income. Gaps widened after 2010 with reversals in levels of education and income per capita for the Low Human Development group due to the impact of conflict. The evidence is pointing towards a growing divergence in human development achievements between countries and growing income inequalities both within and between Arab countries. This is why the UN-ESCWA and the Economic Research Forum (2019, forthcoming) are embarking on a major study to examine these inequalities of outcomes in more depth, and, more importantly, to relate them to inequality of opportunities. Secondly, the deficit between social development inequality outcomes, as reflected by reductions in inequality in mean years of schooling and life expectan-

CHART 24

## Average Annual Rate of Change (AARC) in Life Expectancy, Education and Income Indices and Their Atkinson Measures

Source: *ibid.*

Note: The baseline year and end year are sometimes adjusted due to data unavailability.

cy and rising economic inequality outcomes, suggest human capital gains were not reflected in higher incomes per capita for most countries. A major reason for this is the crippled mechanism through which the national income is channelled to households.

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These findings certainly raise the need to rethink mainstream inequality narratives. The problem is with real, and not only perceived, inequality as some studies have pointed out (World Bank, 2015). Policy solutions must, therefore, address a tenuous growth-inequality nexus which has serious repercussions on political stability and future development prospects in the Arab region. As evident in the deceleration of HDI

progress since the 1990s, and more so since 2010, Arab economies are unable to deliver on growth or inequality reduction, due mainly to their inability to generate decent employment (ESCWA, 2015). Current economic policies thus fall short in meeting the aspirations of an increasingly educated youth and middle class. This calls for a fundamental rethinking of fiscal policies and their underlying economic governance systems.

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