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Poverty & Prosperity: the Question of Distribution



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Introduction

Combating inequality and promoting social justice is fast becoming a global and regional Arab priority. It has occupied center stage in national development agendas worldwide, most notably in the Arab region, and has spurred useful debates on the best approaches to reduce inequalities, institute an inclusive approach that decreases poverty rates and unleash wider access to quality services. It has become conventional to construe the popular revolts that gripped parts of the Arab region in 2011 as an outcry against socioeconomic disparities. This is largely true and the popular slogan during the massive sit-ins in freedom squares, “Freedom, Dignity & Social Justice” is an expression of decades-long development deficits.

The imbalanced development practices and their cumulative negative effects of misguided and unfair distribution policies were clear during the massive revolts that began in their majority in peripheral areas before snowballing into major cities. Inequality had hit hardest in rural and vulnerable areas that have suffered neglect, environmental degradation, poverty and lack of opportunities. But the sorrows of skewed development policies predate the popular revolts and illustrate decades of misguided policies, imbalanced development practices and growth-only paradigms at the expense of such issues as inequality, social justice and fair distribution.

Today the Arab region faces sobering choices in shifting paradigms to an integrated human rights-based approach for development that moves undeviatingly and irreversibly towards eradicating poverty, reducing inequalities and instilling a sense of justice and inclusiveness in society. To end poverty effectively, there must be a sustainable effort to combat and reduce inequalities across sectors of populations, particularly vulnerable groups. By concomitantly working on reducing poverty and bridging the gap of inequality, there needs to be an inclusive approach that not only targets the poor but also the rich by ensuring more opportunities for the former and less constraints by the latter. To do so would entail a transformation in the mindset governing socioeconomic policies and how growth is perceived. It would also mean focusing on people first as the main actors and beneficiaries from the process of socioeconomic development. The need for a departure from the old distribution model is not new. There is considerable amount of thinking on this front that belabor the point of why it is important to do so.

Inequality and unfair distribution policies have led to the exclusion of vast swaths of the Arab population across the region. Several areas warrant our attention when we discuss the shifting mindset on distribution and inequality. The aftereffects of structural adjustment and neoliberal policies that have largely led to the current state of affairs are felt most strongly in rural and semi-urban communities; in the employment sector; labor participation; access to quality education and health services; the exponential expansion of the informal sector; skyrocketing rates of poverty; and misguided development policies. All of these have led to the deterioration of the quality of life for the many and the concentration of wealth with the few.

The launching of the SDGs has given global legitimacy to the discourse on the need to reconsider the way we think of development from pro-growth distribution models to pro-poor and pro-citizen development. While the SDGs is an integrated ensemble of worthy targets that should be pursued holistically, the most relevant of them for this panel are Goals 1, 10 and 16. In reality, it would be counter-productive to isolate the Goals and treat them separately since they are a mutually reinforcing package of achievements along with their targets. For example, no discussion of inequality is complete without considering Goal 5 on gender inequality. In the same vein, Goals 1, 2, 3 and 4 on poverty, hunger, health and education should not be decoupled from Goal 8 on decent work and economic growth; nor should Goal 17 be seen as a standalone mechanism.

Session Objectives

The panel is dedicated to deconstructing the myths surrounding the concepts of inequality, social justice and inclusiveness in the region. It will also attempt to build a link between poverty and inequality as it pertains to the region and advance an argument on why and how combating the former could lead to reducing the latter. It will focus on such key messages as reducing poverty, ensuring growth and reducing inequalities in the Arab

region; the importance of social-justice sensitive policies and how to integrate that concept into the policy cycle; and equality of opportunity as well as that of outcome are key for winning the struggle over poverty.

Background

Redistribution & Inequality

Inequality and growth has been a long-studied relationship, however the effect of distribution and redistribution on the levels of inequality remains unclear beyond the immediate term where redistribution lessens inequality. Direct forms of redistribution include tax reforms, subsidies and social protection schemes. However, more subtle to capture is indirect or in-kind assistance by states in education and health services and the impact of those on the question of inequality. According to the IMF, “The things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. And the resulting narrowing of inequality helped support faster and more durable growth, apart from ethical, political, or broader social considerations.”¹ While we begin to understand the relationship between growth redistribution and inequality, the relationship to poverty remains elusive. Does too much redistribution reduce poverty or create a dependency that eventually hampers development?

Dilemmas of Poverty in the Arab World

Global poverty indexes and such measurements as the Multi-Dimensional Indicator face serious methodological challenges when it comes to measuring rates of poverty in the Arab region. The difference in LDCs and middle-income countries and the GCC countries are staggering and require a country-based approach for gauging poverty levels. What complicates the picture is the presence of active conflicts in Syria, Yemen, Iraq and Libya that exacerbate levels of poverty and aggravate inequality by creating masses of vulnerable population, refugees and other disadvantaged groups. Furthermore, social protection policies saw an upsurge following the street protests that led to few regime changes. These policies, however, proved to be poorly sustained and fizzled out in their majority – they were neither universal nor rights-based, nor were they well thought out.

Effective policy packages to combat poverty have been very hard to come by in the region. This is especially true for the absence of an integrated approach that combines the gist of the SDGs to combat poverty and ensures pro-poor growth and reduced inequalities. Such an approach would require the integration of efforts to improve people’s well-being; stave off negative fallouts of climate change and focus on intergenerational equality of opportunity; ensure food security and access to basic services; and provide a peaceful and enabling environment for it all.

An effective approach to combat poverty would entail a policy package that puts as priority the generation of productive jobs, the promotion of inclusive growth and the advancement of rights-based social protection mechanisms. Such measures would have to be developed in participatory and sustainable ways which can only be done by widening the fiscal space through improving tax collections, reforming tax systems and ending rent-seeking. Additionally, for these measures to be successful, they need to devote special attention to vulnerable population and groups at risk or those who face discrimination and exclusion.

Inequality: Fallout of Unchecked Growth Patterns

The close of the twentieth century witnessed the dual phenomenon of the rise in growth accompanied by a concomitant rise in inequalities. The fruits of the trickle-down neoliberal approach did not materialize and many countries – developed and developing – saw the rise in inequality as their income rose. The advent of the Occupy Movement, the Food Riots in Mexico and most recently the Arab Uprisings are manifestations

¹ Redistribution, Inequality, and Growth Prepared by Jonathan D. Ostry, Andrew Berg, Charalambos G. Tsangarides, IMF, Washington, DC 2014, p. 26.

of protest against intolerable levels of inequality. In 2015, just 63 individuals had more wealth than half of humanity, and the poorest half of the world's population has received just 1% of the total increase in global wealth, while half of that increase has gone to the top 1 percent².

Much of the recent economic discourses on inequality have focused on the importance of strengthening economic performance to achieve greater equality. They dwelled into the impact of market competition, fiscal policies including redistributive fiscal policies, public expenditures, household income and expenditure, cash transfers and tax revenues etc., all of which are important to understand the quantifiable dynamics and challenges of inequality in the Arab region, especially in the presence of compelling evidence of its impact on growth. However, equality-oriented development approaches have been moving beyond income inequality and addressing key social determinants such as inequality in skills, education, access to resources, jobs, opportunities, well-being, health, life expectancy, welfare, assets and social mobility.

In the Arab region, social and economic inequalities have been increasing in the past twenty years and have become one of the "most pressing developmental issues for the Arab region"³. This trend is in line with the world-wide trend in the rise of inequality experienced by both advanced and developing economies⁴. Inequality is a complex and multidimensional phenomenon, particularly in the Arab region where its relationship with the socio-political and economic trends is elusive and often erratic. Monetary inequalities in wealth and income between individuals and groups in society, important in their own right, form the basis also for the equally important social inequalities in the areas of health care, education, housing and political and social rights. Moreover, the realization of economic and social inequalities in society can also take specific forms related to gender, geography, ethnicity, and the life-cycle of individuals⁵.

Traditional debates on inequality focused on income and wealth disparities which is quite misleading when we think of inequality as multidimensional to include social, economic, political, cultural, spatial and environmental inequalities. All of these dimensions interact together in a vicious circle that aggravates inequality. For example, women who are at the bottom of the economic ladder, also face gender discrimination and less access politically and economically – hence suffering from several dimensions of inequality. Often times, redressing inequality requires more than a single intervention and becomes a question of rights rather than a mere opportunity or outcome.

The rise of inequality has many economic, social and political costs. The human rights approach and the interrelated social exclusion concept emphasize the effects that economic inequality has on the inability of individuals to attain basic social rights that are integral part of "human rights" in addition to their possible social exclusion from social networks and processes. But even in advanced capitalist economies, that have highly developed economic and political institutions, inequalities are also costly. Joseph Stiglitz⁶ for example, has argued that the economic and political costs of inequality in the United States include lower productivity, lower growth, lower efficiency and economic instability in addition to the erosion of identity and the undermining of democratic institutions and the rule of law in the quintessential democratic state. Along the same lines, Galbraith⁷ also adds that amongst the costs of inequality are its effect on unemployment and financial stability. Accordingly, the interplay between inequality and the economy becomes much more

² An Economy for the 99%, How privilege and power in the economy drive extreme inequality and how this can be stopped. Oxfam Briefing paper, 2016, p. 2.

³ Hanieh, A. (2015) "Fundamental Rifts: Power, Wealth and Inequality in the Arab World," *Global Research*, March 17, 2015.

⁴ Atkinson, A. B. (2016) *Inequality: What can be done?* Cambridge: Harvard University Press; Piketty, T. (2012) *Capital in the Twenty First Century*. Cambridge: Harvard University Press.

⁵ Parts of this section is adapted from Ghassan Dibeh's (2017) "Inequality and Its Discontents: Dimensions, Drivers and Challenges of Socio-Economic Inequalities in the Arab Region," ESCWA, Beirut.

⁶ Stiglitz, J. (2012) *The Price of Inequality*. NY: Norton.

⁷ Galbraith, J. (2012) *Inequality and Instability*. Oxford University Press.

evident in the Arab region, especially where the relationship between economic ailment and the Arab spring is currently still debated.

This relationship brings forward the importance of the political economy in examining inequality in the Arab world. The aftermath of the Arab spring triggered the investigation for the economic or political-economic causes for the popular uprisings that shook the Arab 'Ancien Regime'⁸. However, the role of inequality and poverty in engendering the revolts and conflicts in the Arab world is controversial, as standard measures of income inequality have been stable or declining in the decade before the uprisings, health and education indicators have been improving, in addition to declining poverty rates⁹. This has led the World Bank¹⁰ to attribute an "Arab Inequality Puzzle" to this failure to predict the Arab Spring using the standard measures of inequality namely income or expenditures-based Gini coefficients and poverty lines.

According to the World Bank¹¹ "The percentage of poor people, already low, was declining in all economies, except Yemen. The incomes of the bottom 40 percent, measured at 2005 PPP-adjusted per capita expenditures, were growing faster than average expenditures in most Arab economies for which information was available" (p.11). However, in some Arab countries, inequality has shown more persistence and stability than poverty rates as reduction in poverty rates may not be associated with a commensurate reduction in inequality; and a general reduction in inequality may not be reflected in inequality reduction between regions. For example, in Tunisia, between 2000 and 2010, poverty rates were reduced from 35% to 10%, while the drop in inequality as measured by Gini coefficient was nominal (from 0.344 to 0.327)¹².

In Conclusion

Arab countries must recognize that inequality and poverty are two faces of the same coin and that redistributive policies can only address them in the short term. The uprisings have shown that Arab citizens not only protested against economic inequality and poverty, but also against marginalization and political disenfranchisement. Any renewed push for more economic opportunities must also provide Arab citizens with a chance to exercise their human rights and participate meaningfully in policies that shape their future.

Arab governments should understand that absolute poverty and acute inequality pose major political and security threats to stability and democratic governance. The 2011 uprisings sounded the alarm that Arab societies have the willingness and capacity to challenge incompetent governance and corruption. There are various distribution, poverty and inequality grievances that remain unaddressed and with no concrete plans in sight. The SDGs present a welcome opportunity to tackle them in a meaningful way and to respond to the pressing needs of a restive Arab population

⁸ Ansani, A. and V. Daniele (2012) "About a Revolution: The Economic Motivations of the Arab Spring" *International Journal of Development and Conflict* 3 (3); Lagi, M., K. Bertrand and Y. Bar-Yam (2011) "The Food Crisis and Political Instability in North Africa and the Middle East," *New England Complex Systems Institute*; Springborg, R. (2011) "The Precarious Economics of Arab Springs," *Survival: Global Politics and Strategy* 53(6).

⁹ Kanbur, R. (2013) "Economic Inequality and Economic Development: Lessons and Implications of Global Experiences for the Arab World." Unpublished paper.

¹⁰ World Bank (2015) *Inequality, Uprisings and Conflict in the Arab World*. World Bank MENA Economic Monitor. October 2015.

¹¹ Ibid.

¹² Cuesta, J, El-Lahga, A, Ibarra, G (2015) "The Socioeconomic Impacts of Energy Reform in Tunisia A Simulation Approach," World Bank Policy Research Working Paper 7312.

The Panel and its Themes

The following themes will be pursued by the moderator in launching the discussion with the panel:

1. How do past and current economic thinking and practice aggravate inequality and lead to exclusion in the Arab region? In what ways is social justice absent from prevailing conventional economic thinking?
2. What would an effective socioeconomic transformation look like in the region?
3. What paradigmatic shift is required to put the region on the right track toward achieving the SDGs?
4. What socioeconomic policies (if any) have changed since the onset of the popular revolts and the transitions that they have triggered in the region?
5. What institutions are required to effect such transformation?
6. How and when can policy processes lead to social inclusion, reduce inequalities and improve people's agency? What innovative policies are required?
7. Can a departure from rent-seeking and neoliberal policies be effected with the prevailing political order of strong central state? What SDG policy decisions are required for an effective departure?
8. What challenges do budding social movements face in the region today in pushing an SDG agenda? How have the past 6 years shaped the role and agenda of civil society in the region?
9. Can social movements present a working model of participatory socioeconomic change in the Arab region? What successful cases exist?
10. Are there successful cases of socioeconomic change, at the national or decentralized level, registered in the recent past? What are they and how they can be leveraged for the SDGs implementation?