



منتدى البحوث الاقتصادية  
ECONOMIC RESEARCH FORUM

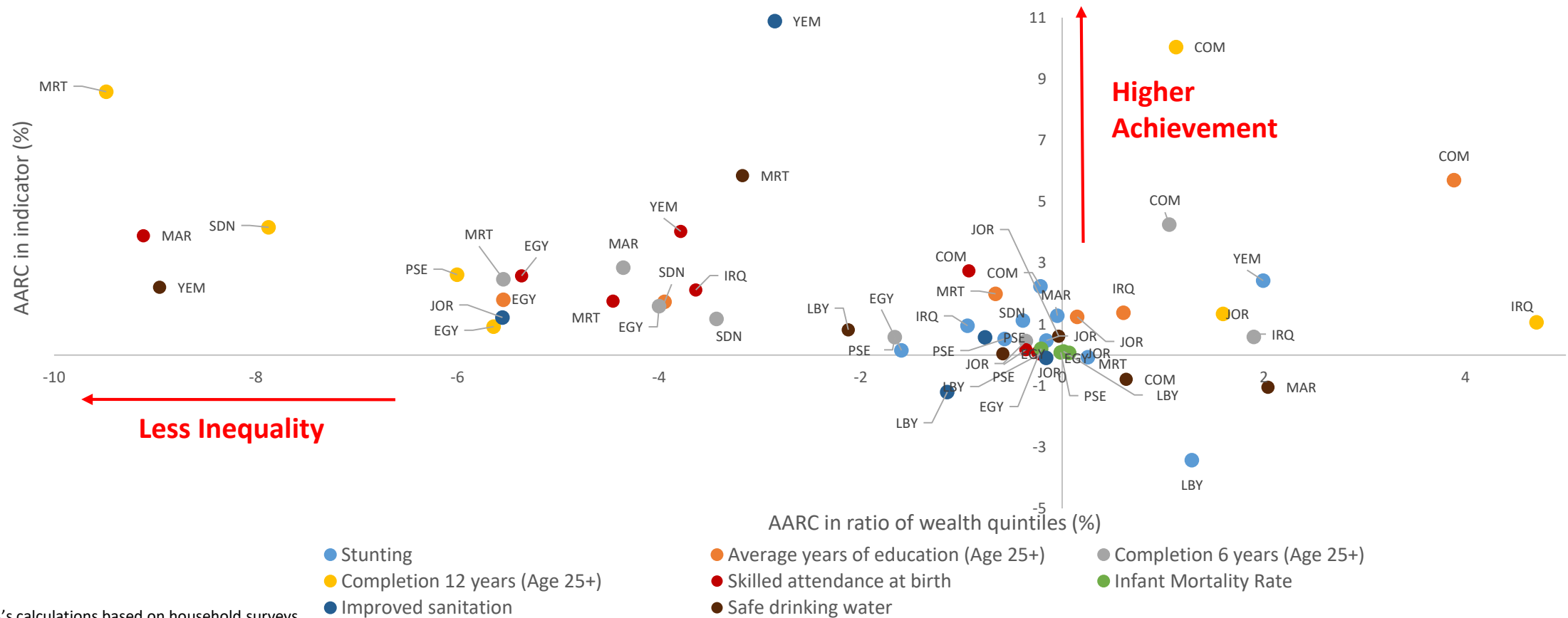
# Rethinking Inequality in Arab States

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Special Session Rethinking Inequality in the Arab States, Beirut, April 2019

# 1. Declining Outcome Inequalities in most basic Health and Education Indicators

**Figure 1 : Average annual rate of change (AARC) for selected indicators and their respective wealth ratio**



Source: ESCWA's calculations based on household surveys

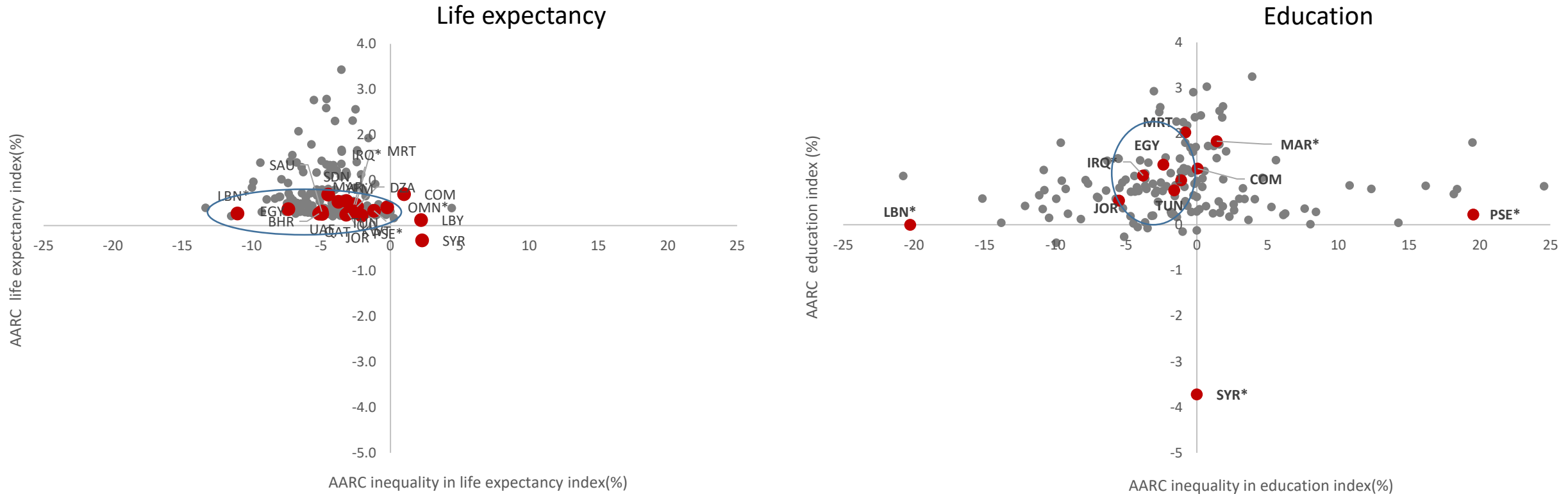
Note that for all indicators, we set -10 and 10% as lower and upper bounds for the average annual rate of changes (AARC) in the ratio of richest to poorest quintiles .

Generally, AARC values for all countries fall within this range, except for the following cases. Palestine and Sudan for safe drinking water. Mauritania and Morocco for improved sanitation.

- All indicators are measured as achievements ; so , the wealth ratio measures richest to poorest quintile.
- Overall, Arab countries have had human capital gains while also reducing inequality.

## 2. Supporting Evidence from Human Development Report

**Figure 2 : Average annual rate of change (AARC) in life expectancy and education indices and their Atkinson measures (2010-2017)**



Source: Based on Human Development Indices and Indicators: 2018 Statistical Update, UNDP.

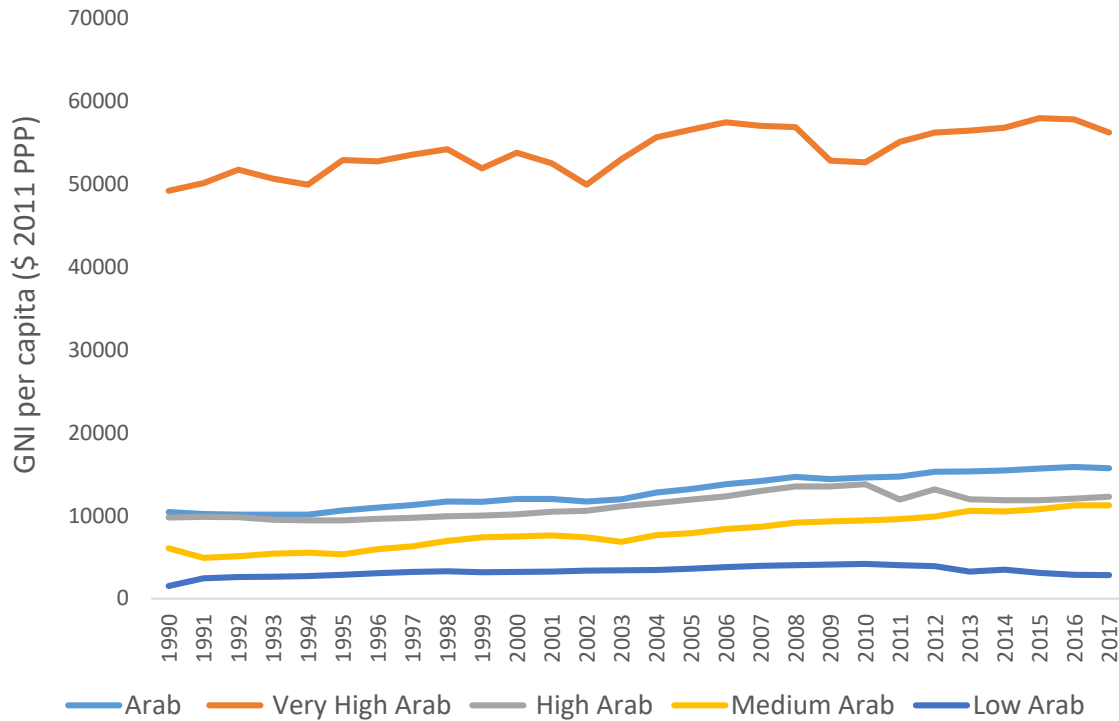
Note that for life expectancy, in Lebanon, Iraq, Oman and Palestine, the baseline year is 2011 due to data unavailability in 2010.

For education, in Lebanon, Iraq and Palestine, the baseline years are 2011, 2012 and 2013 respectively due to data unavailability in 2010. For Morocco and Syria, the end-line year is 2015 and 2016 due to data unavailability in 2017.

- Consistent with our findings, the majority of countries mark improvements in human capital and reduction in inequality .
- Inequality reduction in health dimension is much higher than that in education.

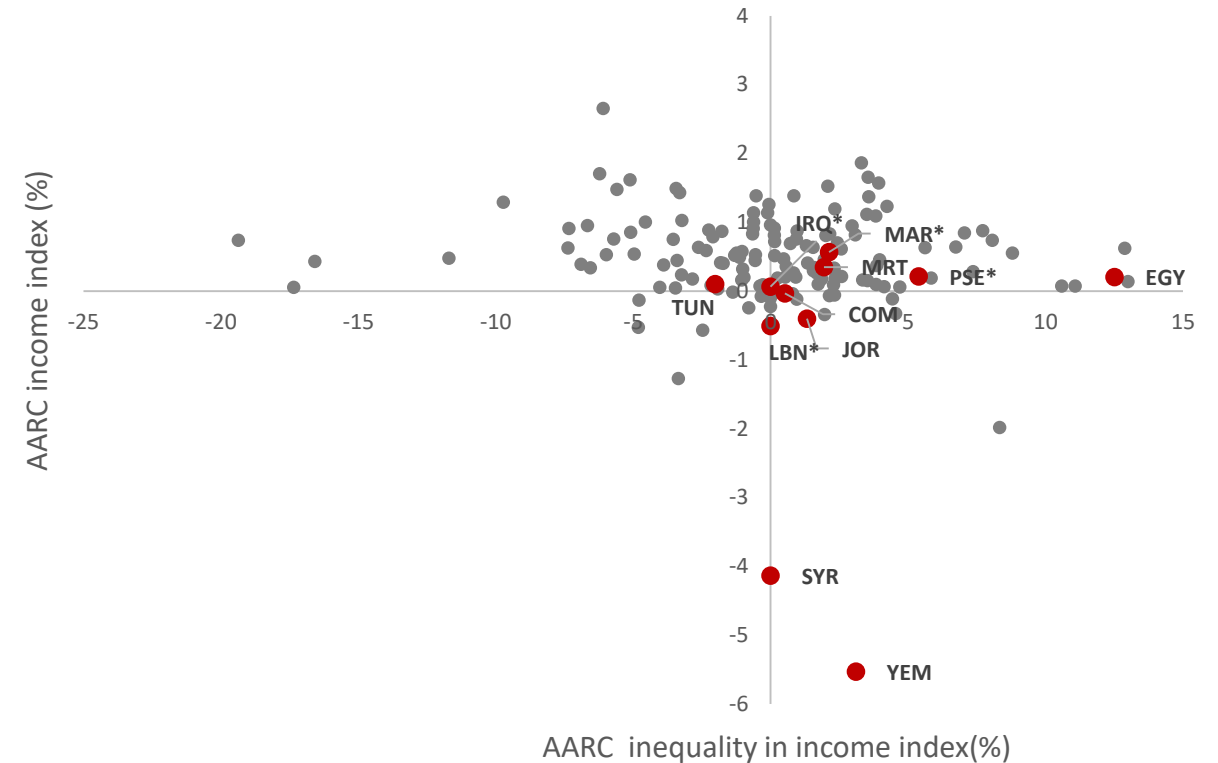
# 3. Human capital gains set against stagnating income and rising income inequalities

Figure 3 : GNI per capita (\$2011 PPP) over 1990-2017



Source: Author's calculations based on HDI data

Figure 4 : Average annual rate of change (AARC) in income index (i.e. normalized GNI per capita, \$ 2011 PPP) and its Atkinson measures

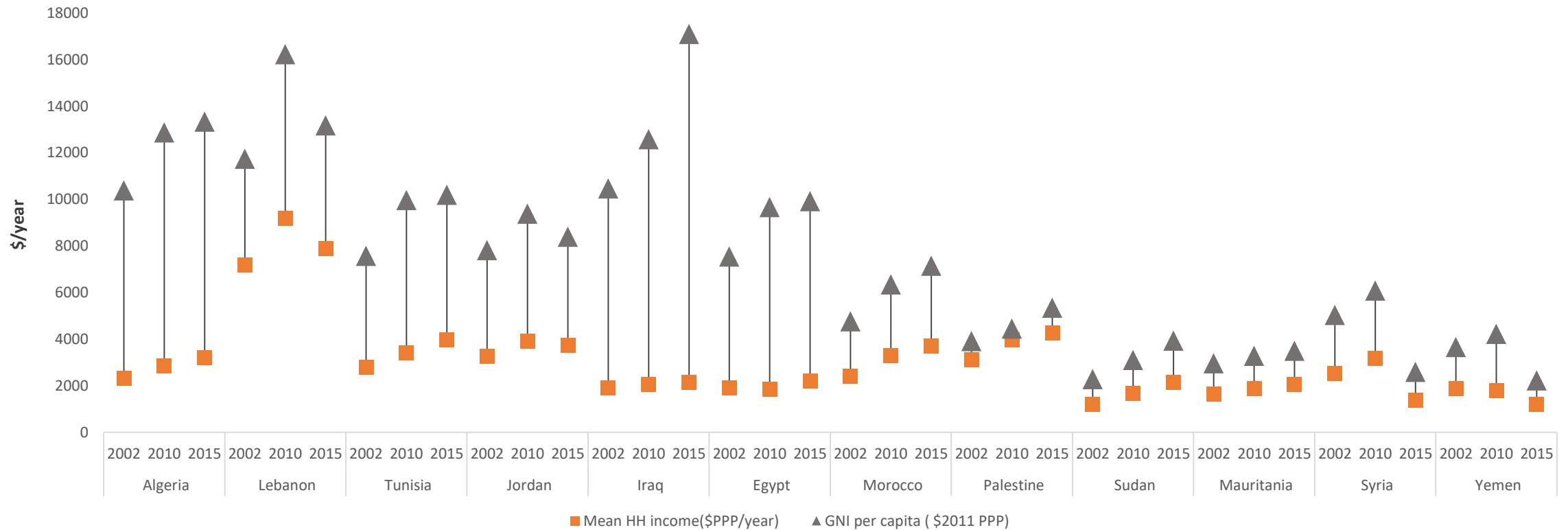


Source: Based on Human Development Indices and Indicators: 2018 Statistical Update, UNDP. Note that for Lebanon, Iraq and Palestine, the baseline years are 2011 and 2013 respectively due to data unavailability in 2010. For Morocco and Syria, the end-line year is 2015 and 2016 due to data unavailability in 2017.

- Sluggish progress in GNI per capita levels , especially relative to the education and health dimensions.
- Several countries have increasing income inequality.

# 4. Increases in GNI per capita not transmitted to households in middle-income countries and widening gaps

Figure 4 : GNI per capita levels versus household income (annual)



Source: Povcal for household income levels and Human Development Data for GNI per capita levels

- High and middle human development countries have wide gaps between GNI per capita and actual household incomes that persisted over time .
- The narrower gap in low development and conflict countries reflect the overall poor socioeconomic conditions.

## 5. Economic Policy Drivers of Inequality: Rents and Liberalization

### **1. Lack of structural transformation: over the period 1990-2012, growth was concentrated in low value added service sectors (ESCWA,2014).**

- High levels of informality: According to ILO (2018), 68.6% of employment is informal in the Arab states.
- Inequality in factor shares: Arab firms tend to have higher capital shares relative to wages (ESCWA-ILO, forthcoming 2019).
- High levels of unemployment and discouraged workers (partially reflected in decreasing labor force participation rates over time), especially among the youth and females.
- Declining labor productivity growth.

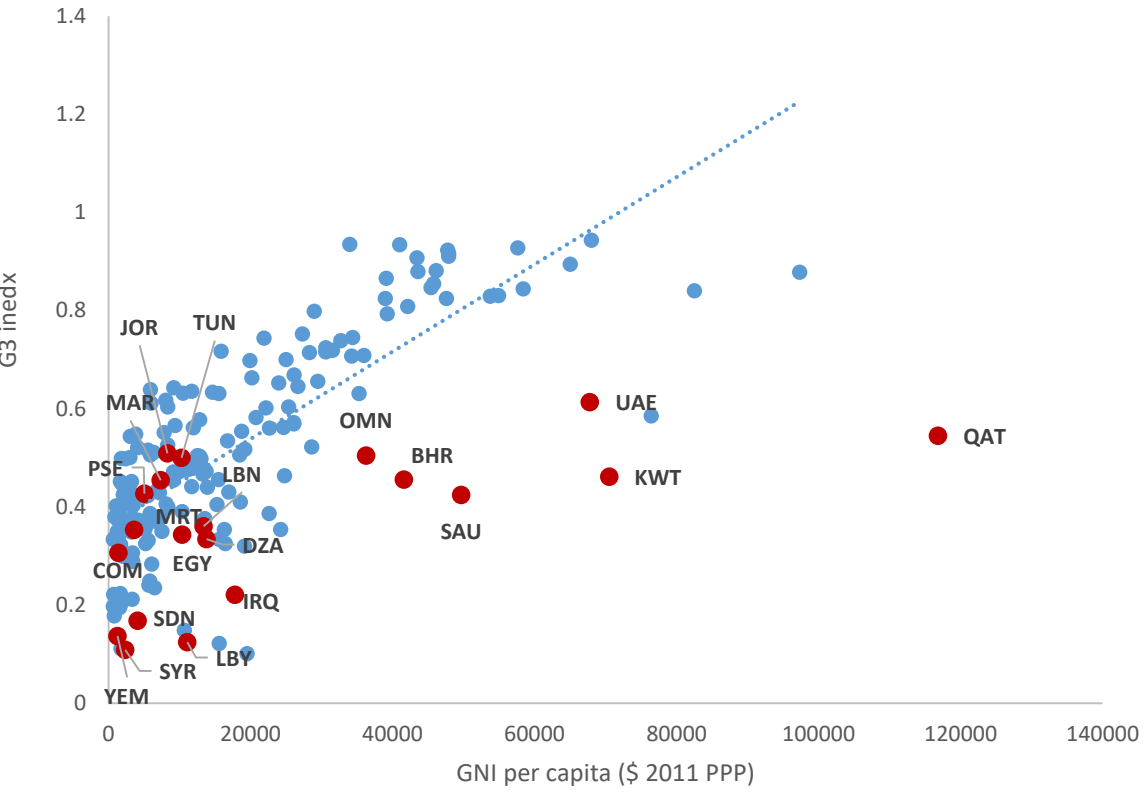
### **2. Lack of progressive fiscal policies**

- Although social expenditure is relatively high in the Arab region, most of the subsidies, especially fuel subsidies, were actually regressive.
- Arab governments rely mostly on regressive indirect taxation (e.g. VAT) for fiscal revenues.

### **3. Fiscal capacities for development expenditures are increasingly constrained, especially with high debt obligations and low oil prices.**

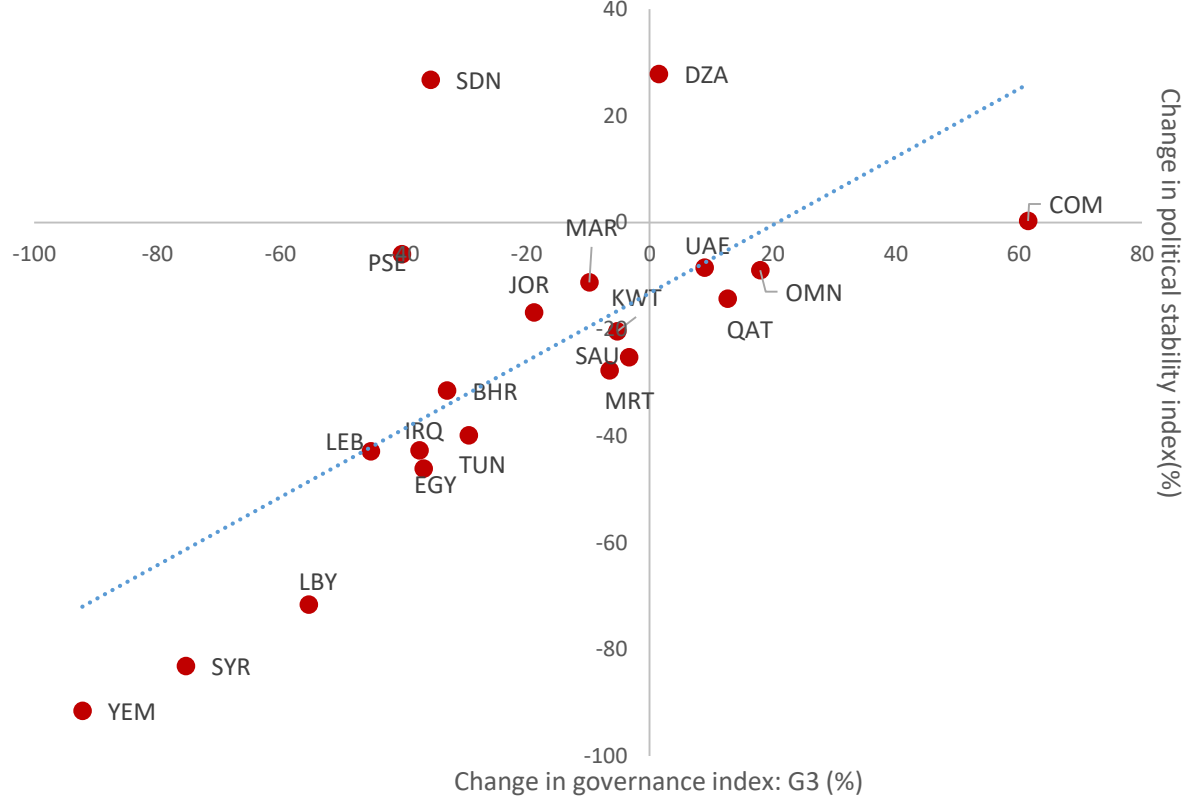
# 6. Region also has very poor governance (closely associated with conflict)

Figure 5 : GNI per capita (\$2011 PPP) and Governance index(G3) in 2017



Source: World Governance Indicators (WGI) and Human Development Indices and Indicators: 2018 Statistical Update, UNDP.

Figure 6 : Percentage change in G3 and political stability indices, 2000-2017



Source: Based on World Governance Indicators (WGI).

- Oil-rich countries have high GNI per capita and relatively low governance levels in line with the rentier social contract.

# Key Message



**This cycle is not functioning properly in the Arab region**

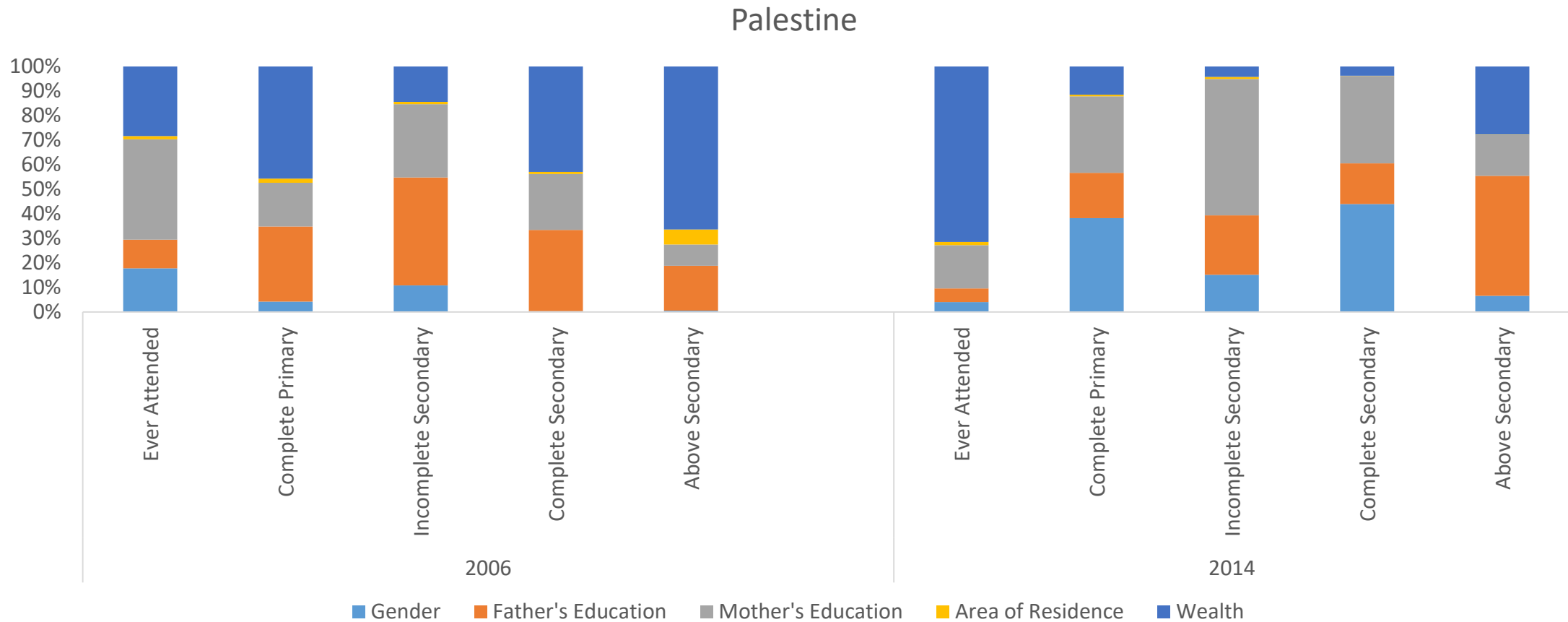
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# ERF-ESCWA collaboration

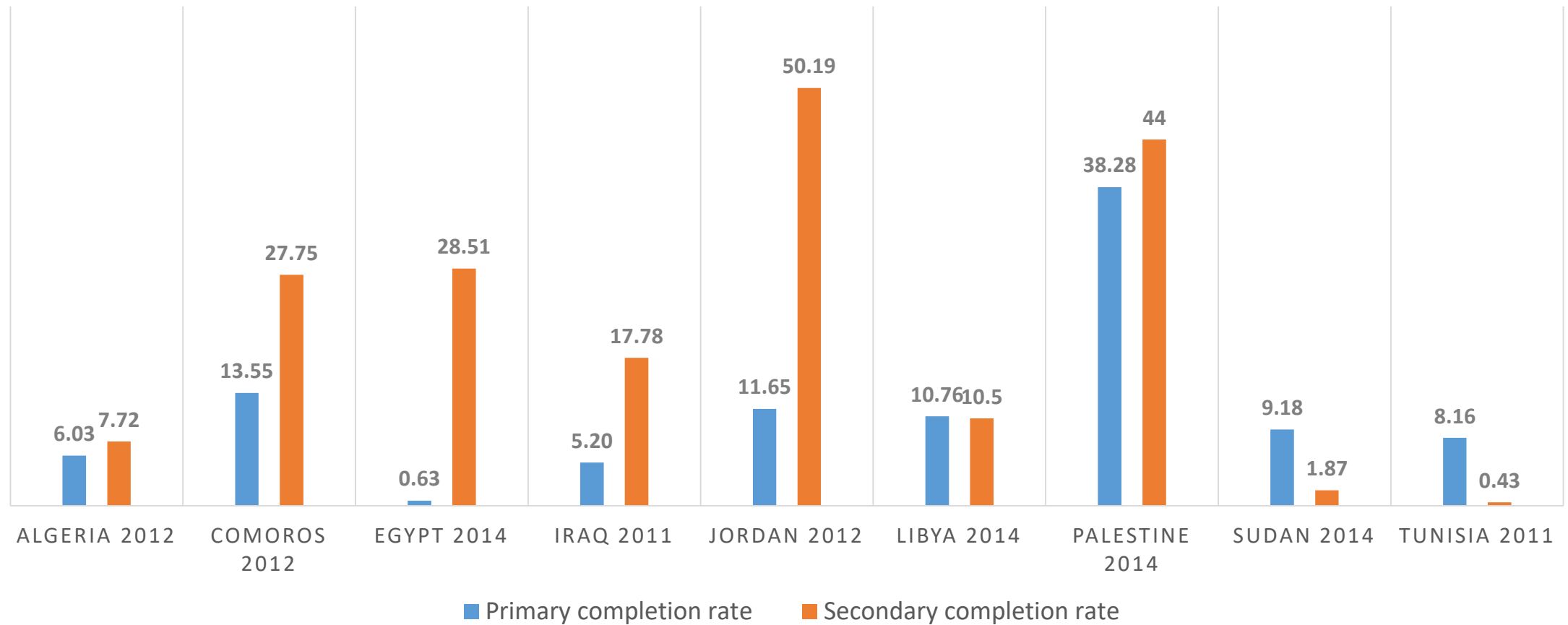
- The Economic Research Forum (ERF) is a regional network dedicated to promoting high quality economic research to contribute to sustainable development in the Arab countries, Iran and Turkey.
- Currently, there are 311 affiliates: 179 Research Fellows, 66 Research Associates, 42 Senior Associates and 24 Policy Affiliates.
- In 2018, ERF and ESCWA agreed to prepare a joint report on inequality in the Arab region.
- ERF's researchers contributed in providing the analysis of the inequality of opportunities component in educational attainment, health, with a special focus on the gender contribution to these inequalities.

# Inequality of opportunity in education: An example



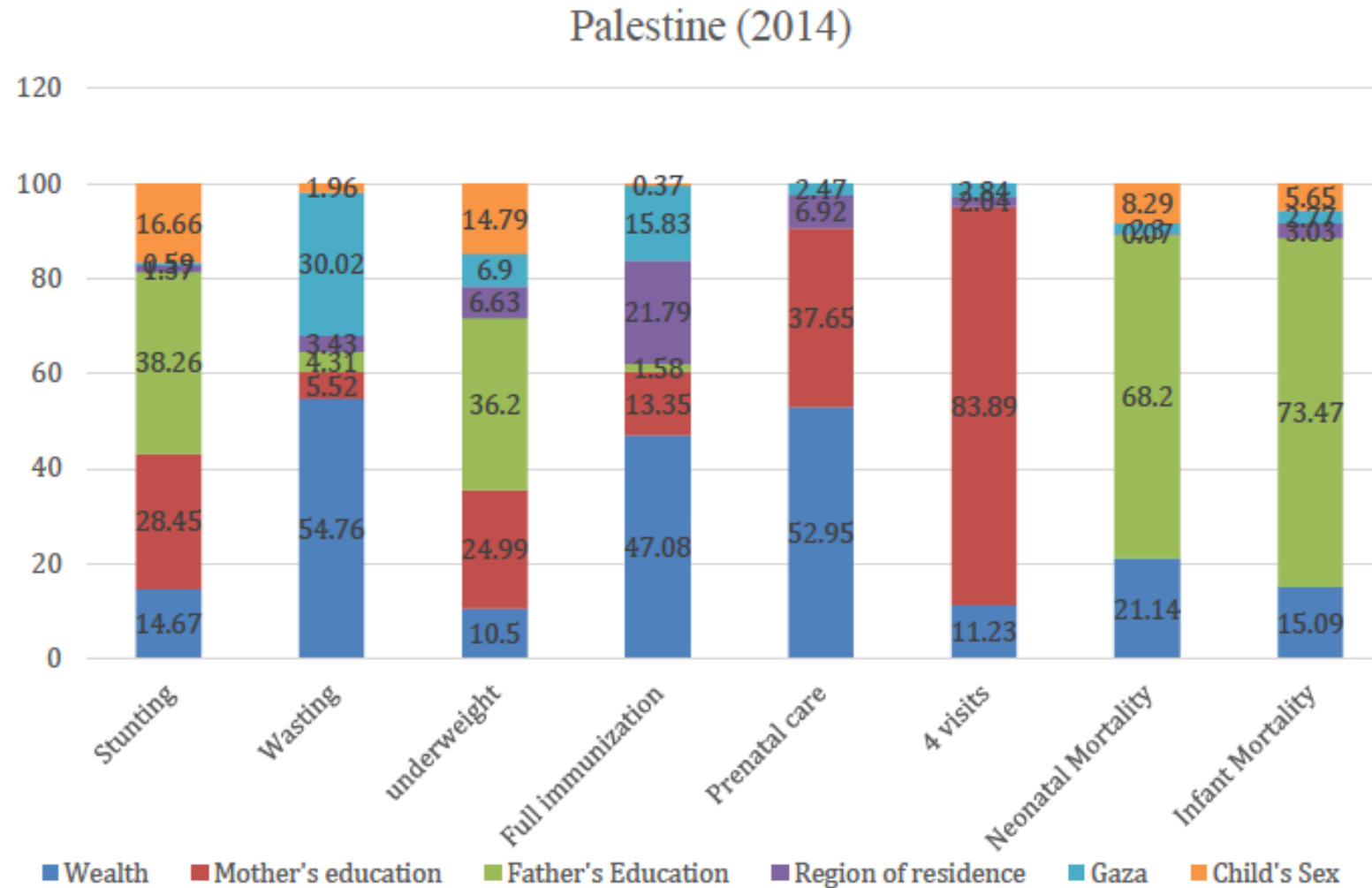
Source: Author's calculation based on household surveys

# Inequality of opportunity in education: Gender aspect



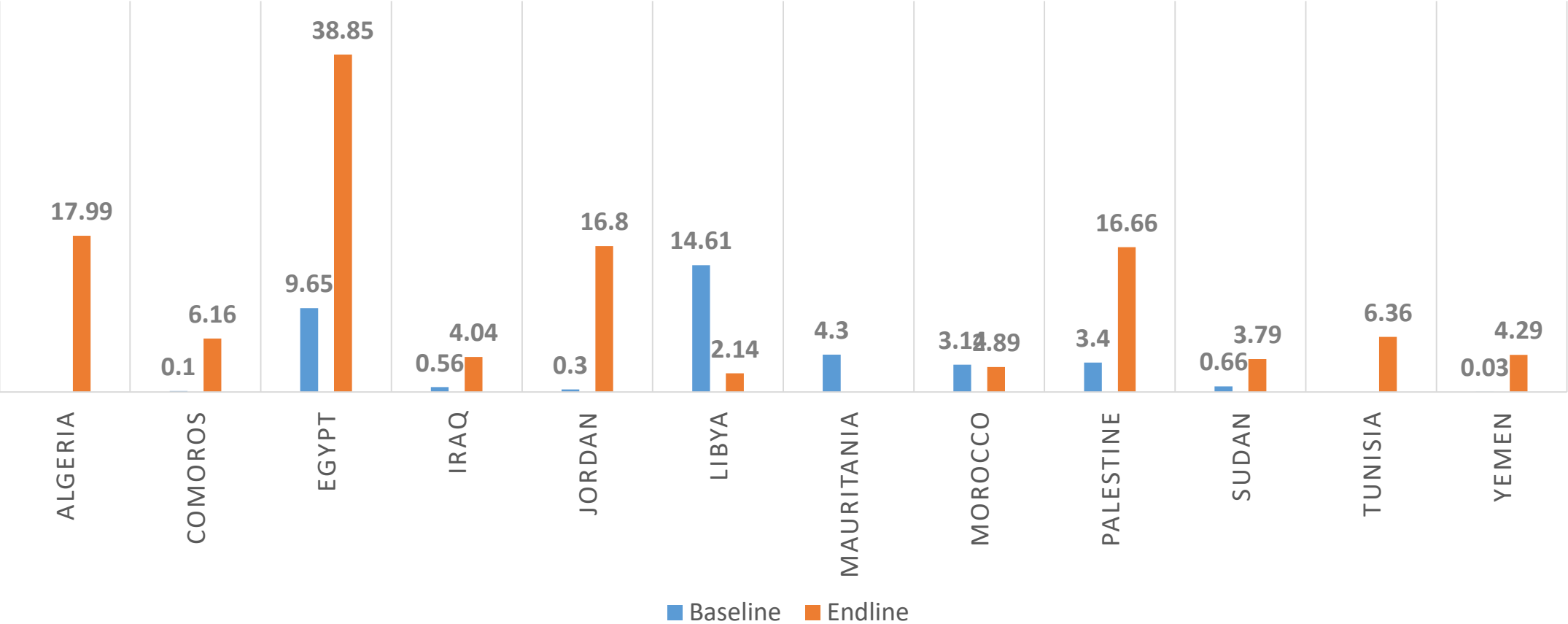
Source: Author's calculation based on household surveys

# Inequality of opportunity in health outcomes and services: An example



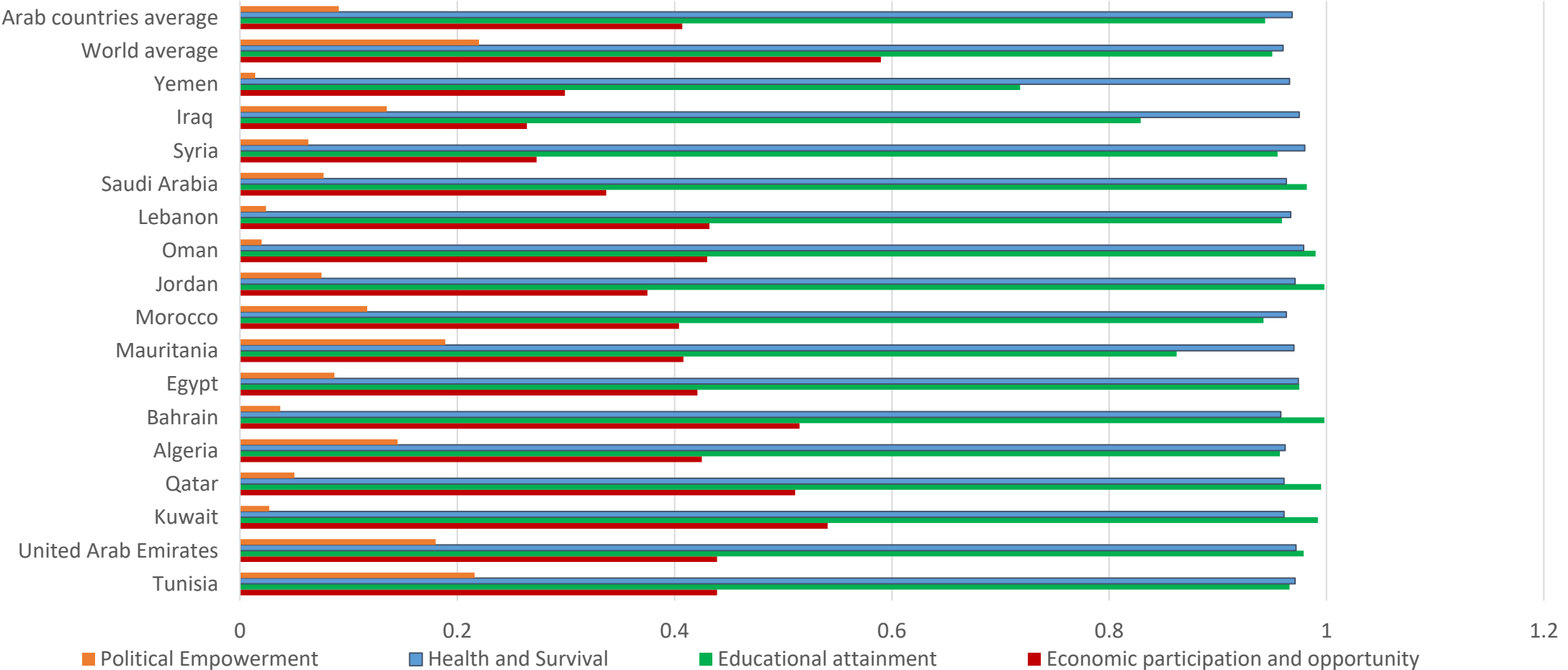
Source: Author's calculation based on household surveys

# Inequality of opportunity in stunting: Gender aspect



Source: Author's calculation based on household surveys

# Gender Inequality: Where should we look?



Source: Global Gender Gap Report



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Thank you !