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Rethinking Inequality in Arab States

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Objective

Three main questions:

1. **Why does Inequality matter?**

   It is not only important from a normative perspective, but it is also important from an economic and development one, especially when inequalities are ensued from structural and institutional deficits as is the case in the Arab region.

2. **What type of inequality?**

   - We adopt a multidimensional approach and focus chiefly on non-income dimensions, health, education and living conditions.
   - We assess inequality in these dimensions using both opportunity and outcome inequality approaches as they are equally important.

3. **Inequality between whom?**

   We focus on several inter-group inequalities listed below:

   - Spatial
   - Wealth
   - Education of household head
   - Extreme groups
     - Group 1 : Wealth and Education of household head
     - Group 2: Spatiality and household size
   - Gender

1. Human Capital: Gains with Declining Inequalities in Outcomes but Less Equal Opportunities

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

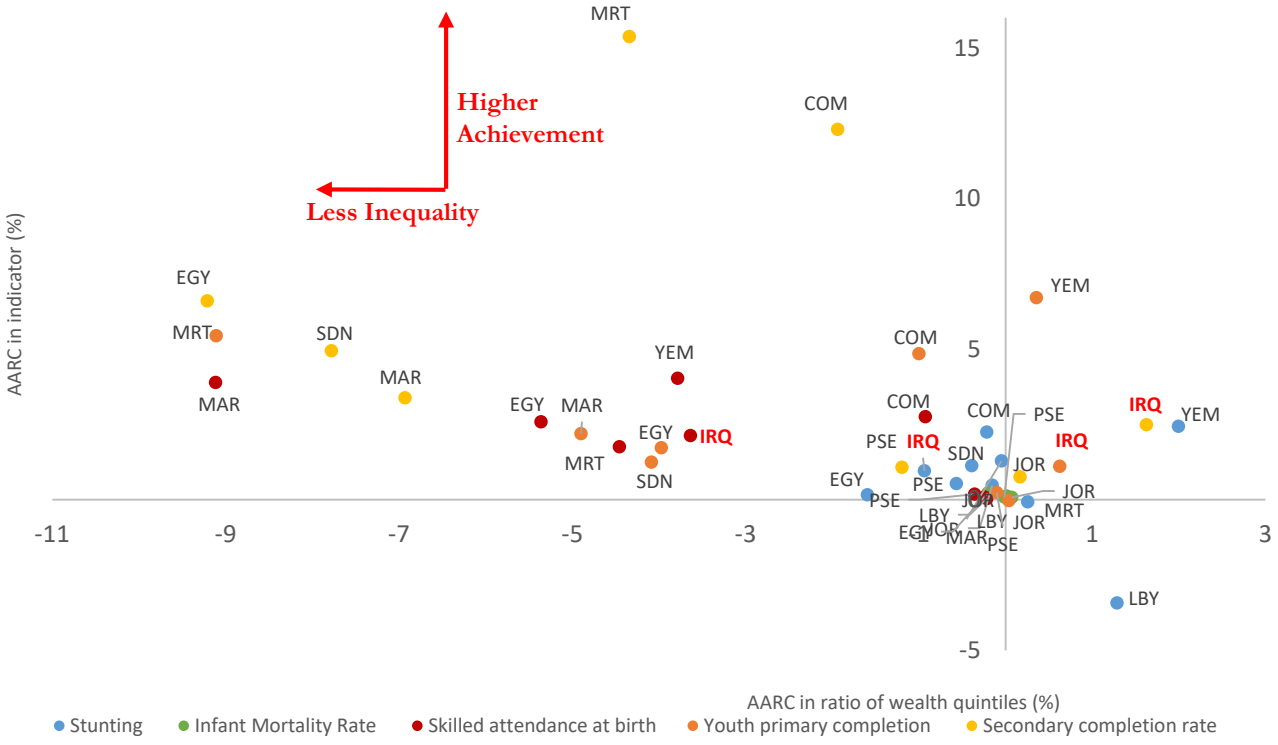
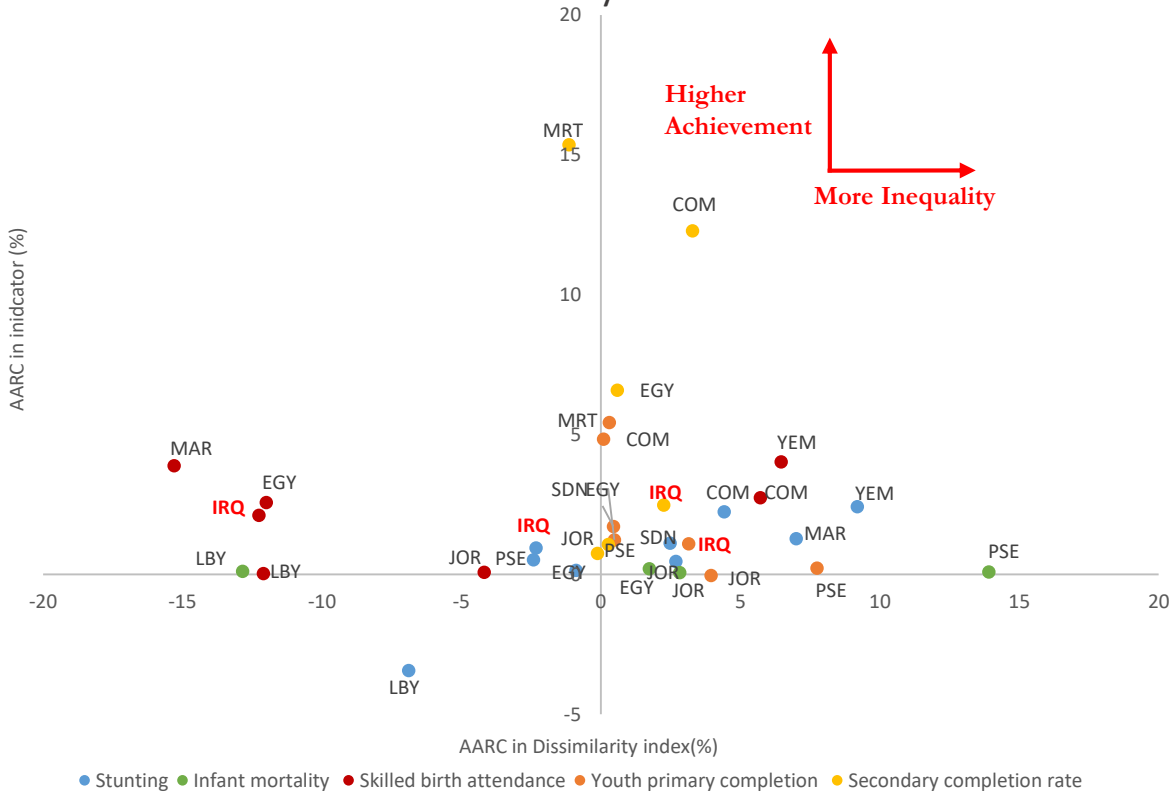


Figure 2 Average annual rate of change (AARC) for selected health and education indicators and their dissimilarity index



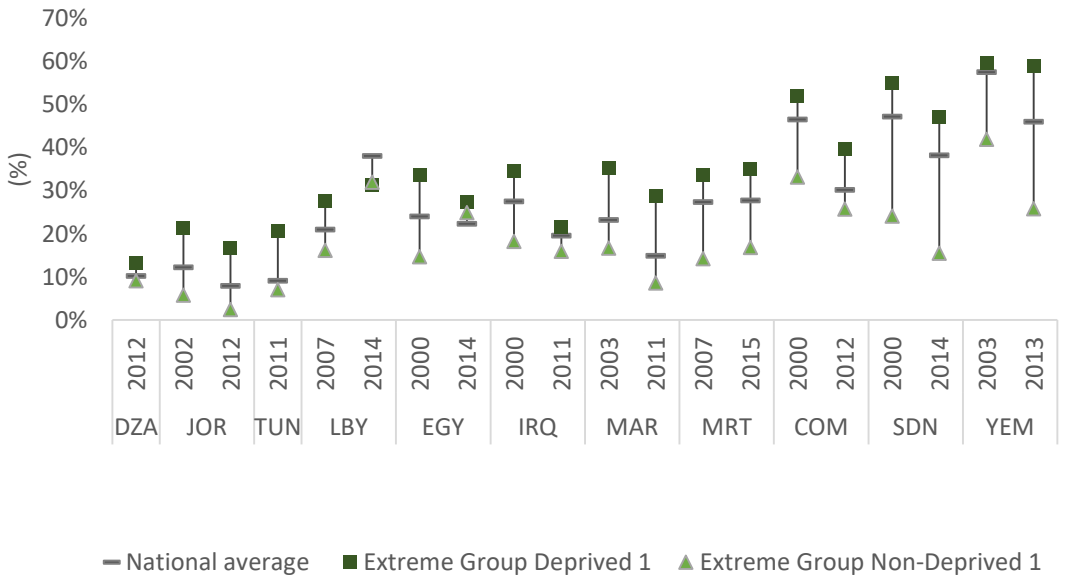
Source: ESCWA's calculations based on household surveys
Note that for all indicators, we set -10 and 10% as lower and upper bounds for the average annual rate of changes (AARC) in the ratio of richest to poorest quintiles .
Generally, AARC values for all countries fall within this range, except for the 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.

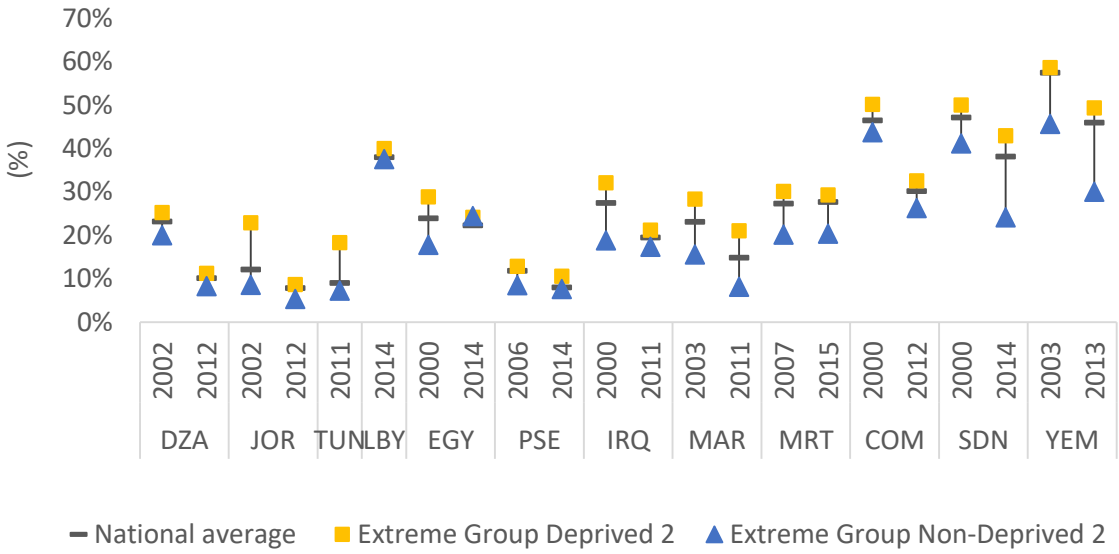
2. Inequality of outcome in health: Stunting example

Figure 3 Prevalence of Stunting, by extreme groups

A. Extreme Group 1: Wealth and Education of household head



B. Extreme Group 2: Spatiality and Household size

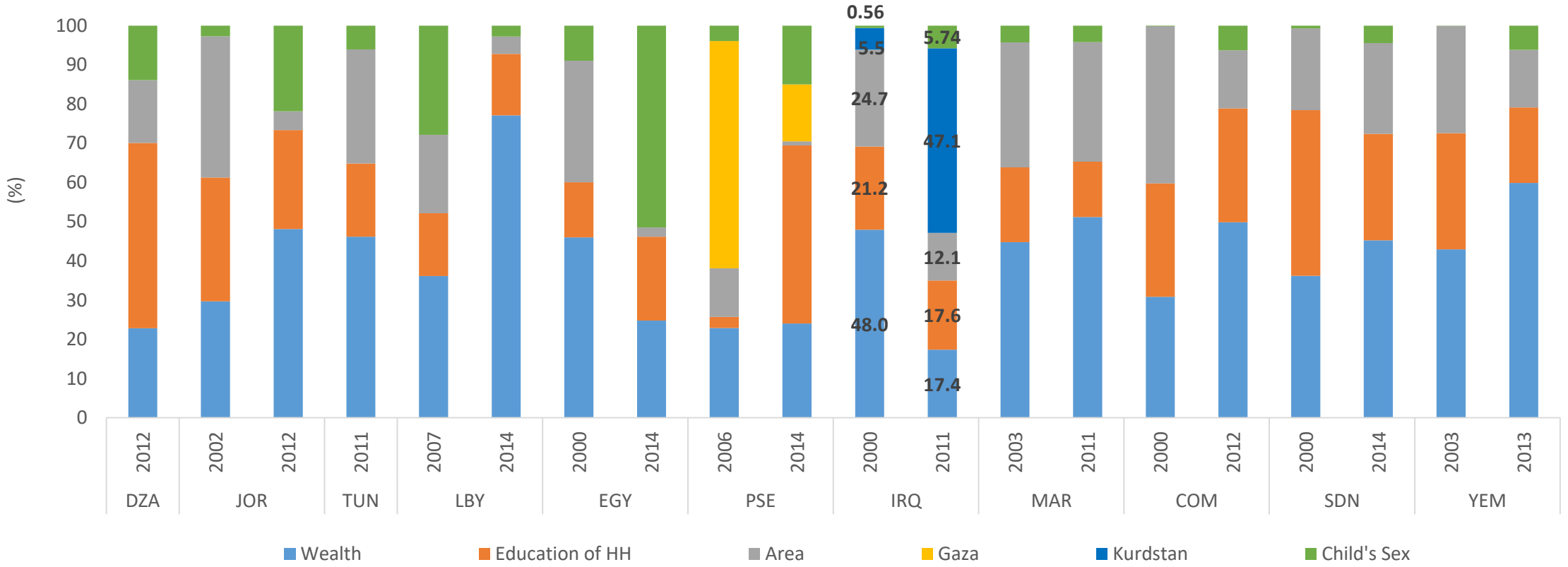


Source: ESCWA calculations

- The prevalence of stunting has dropped across most countries over the past 15 years. Most middle-income countries show little disparities between different sub groups, while many LDCs show persisting and even increasing gaps.
- The extreme group analysis shows that inequality gaps widen considerably for those who are multidimensionally deprived, particularly at group 1 = > **progress is not adequately reaching the most vulnerable.**

3. Inequality of opportunity in health: Stunting example

Figure 4 Shapley decomposition for stunting, in percentages

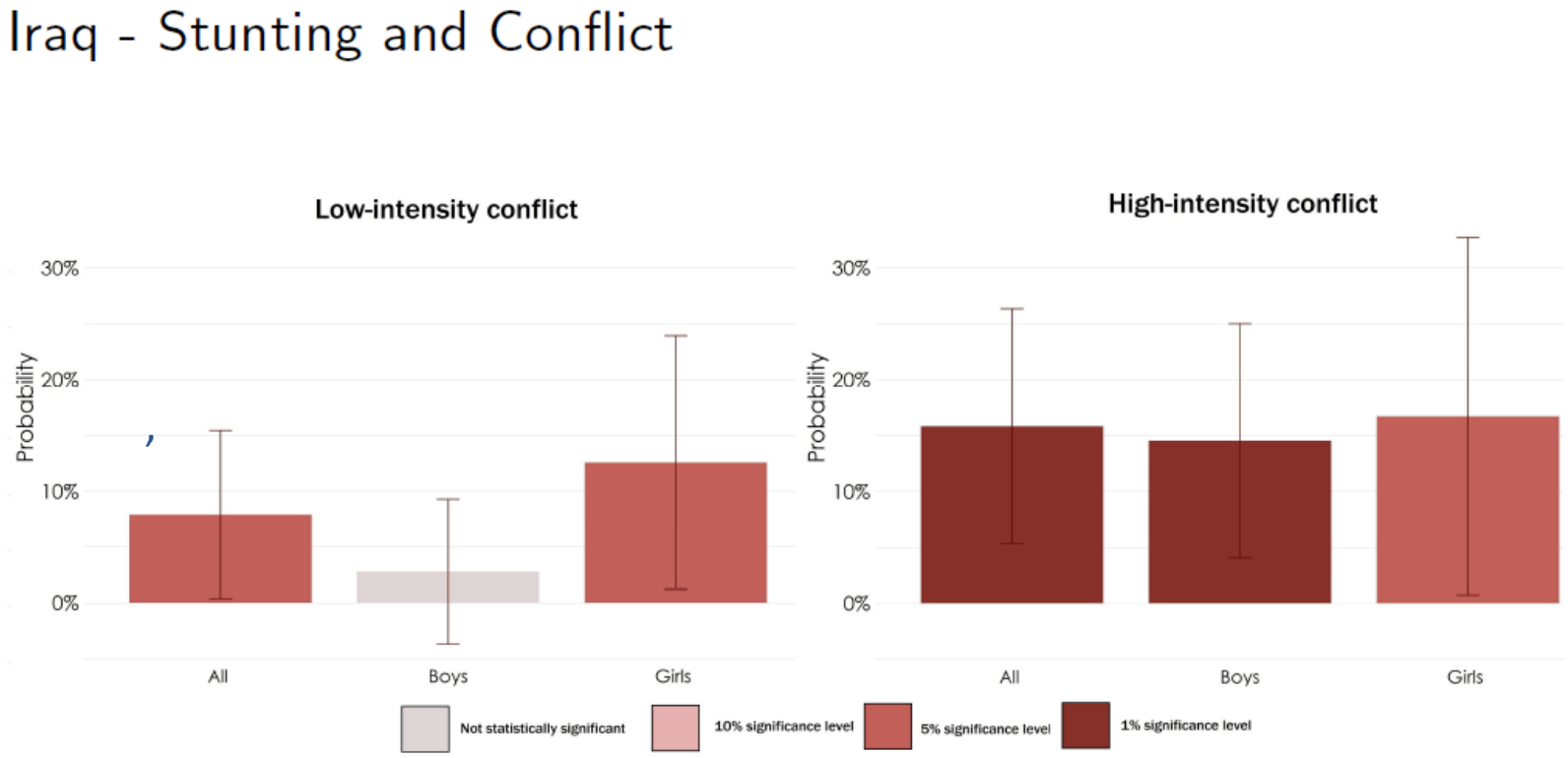


Source: Authors' calculations

- The main driver of health opportunity depends on indicator and varies across countries.
- The Shapley decomposition shows socioeconomic background, especially wealth and education of the head of the household, remains a key in determining health opportunities.
- The contribution of child sex to IOP in health generally showed to be minimal in the Arab region

4. Inequalities are being reinforced by conflict: Case of Stunting in Iraq

Figure 5 Stunting and Conflict in Iraq, by gender



Source: Trends and Impacts Issue 5, 2019. ECRI- ESCWA calculations-based on DHS 2006 and 2013, and the HBS survey of 2014 and UCDP conflict data.

- In Iraq, conflict exposure has reverted these positive trends for some children.
- Conflict exposure appears to be associated with a higher likelihood of stunting and severe stunting.
- Although boys are more prone to stunting, baseline, exposure to low and high-intensity conflicts increases the vulnerability among girls significantly. Vulnerability among boys increases only in times of exposure to high intensity conflict.

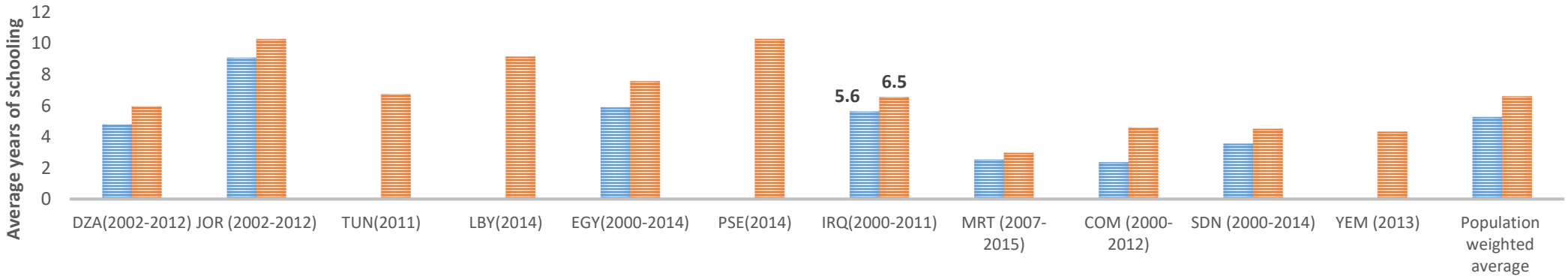
5. The progress in achievements and inequality reduction are reduced at upper education relative to the primary for population aged 25 and above

Figure 6 Contrasting the national completion rates: 3 educational level

Source: ESCWA calculations

Note that in the case of Morocco in 2011, the data did not allow the construction of secondary and tertiary completion. For these indicators, the figures in the earliest year (2003) are not reported in the graph. The completion rates in 2003 are: 13.58 for secondary level and 3.54 for tertiary level.

Figure 7 Levels and Trends in the Average Years of Education

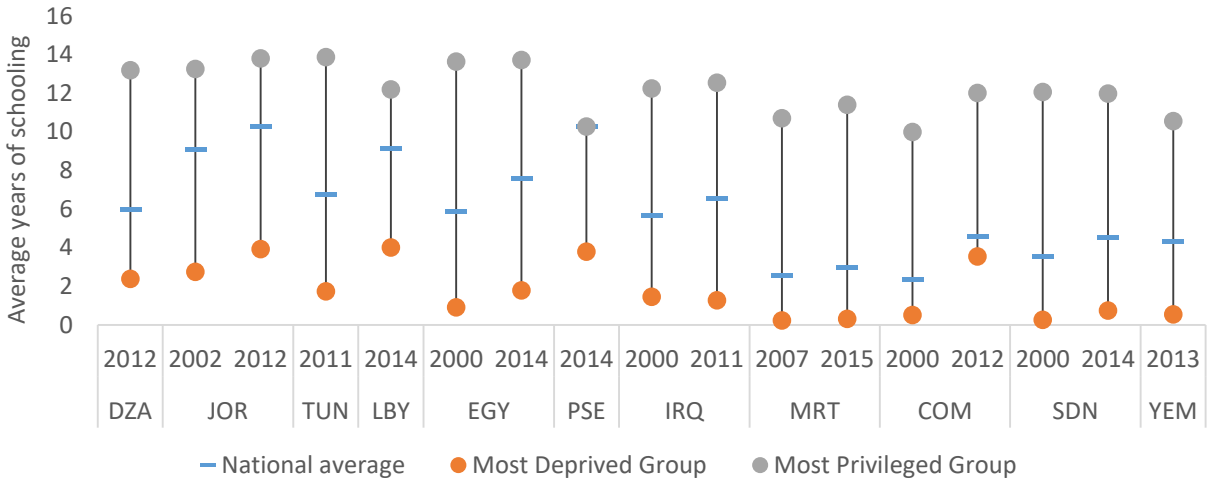


Source: ESCWA calculations

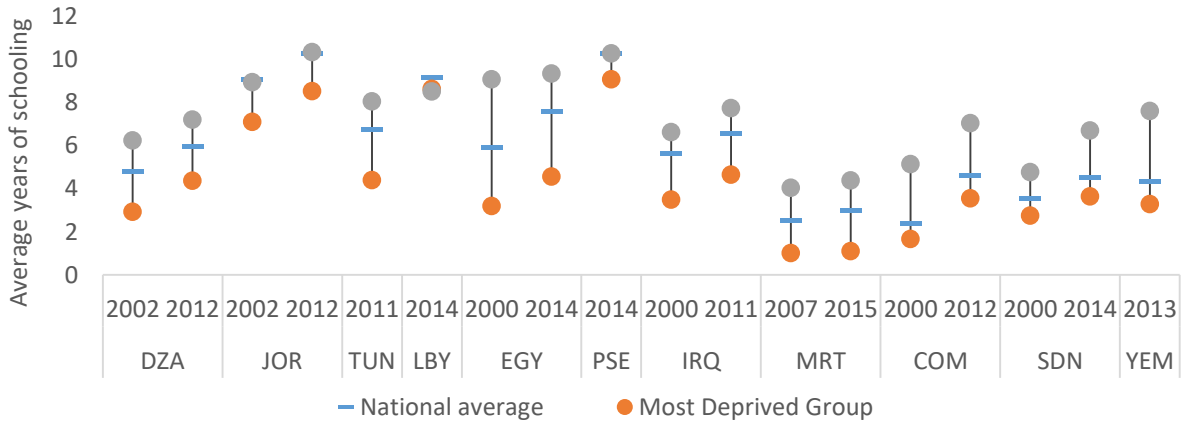
6. Inequalities in education persist, especially between wealth quintiles and education of household head.

Figure 8 Extreme groups inequality in average years of education: Levels and Trends over Time.

A. Extreme Group 1: Wealth and Education of household head



B. Extreme Group 2: Spatiality and Household size

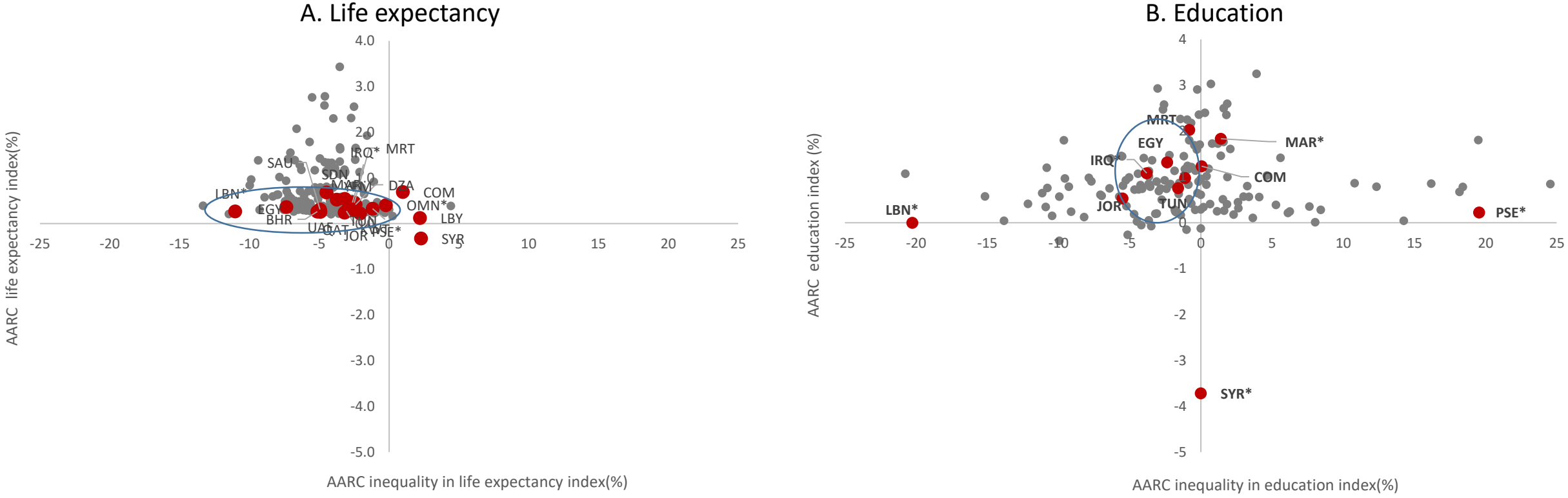


Source: ESCWA Calculations.

- While inequalities are generally closing, wide gaps persist, especially between wealth quintiles and education of household head.
- The extreme group analysis substantiates these findings as it shows lingering and large gaps, especially when looking at extreme group 1 that combines wealth and household head education

7. Supporting Evidence from Human Development Report

Figure 9 Average annual rate of change (AARC) in life expectancy and education indices and their Atkinson measures (2010-2017)

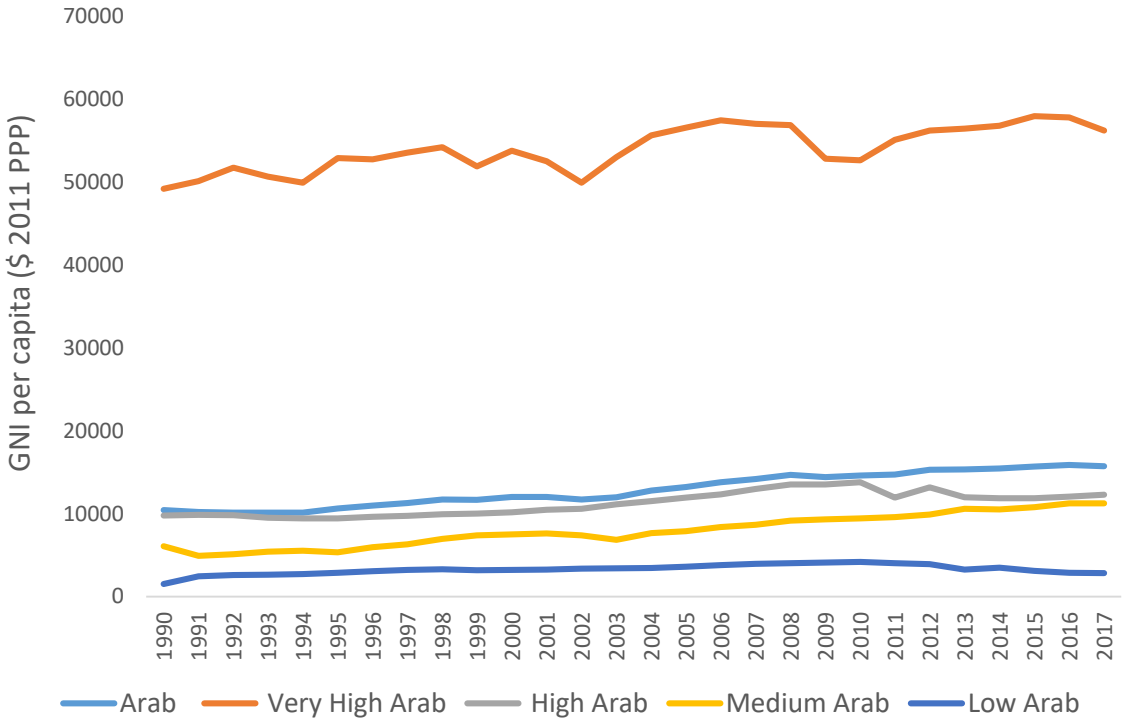


Source: Based on Human Development Indices and Indicators: 2018 Statistical Update, UNDP.
Note that for life expectancy, in Lebanon, Iraq, Oman and Palestine, the baseline year is 2011 due to data unavailability in 2010.
For education, in Lebanon, Iraq and Palestine, the baseline years are 2011, 2012 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.

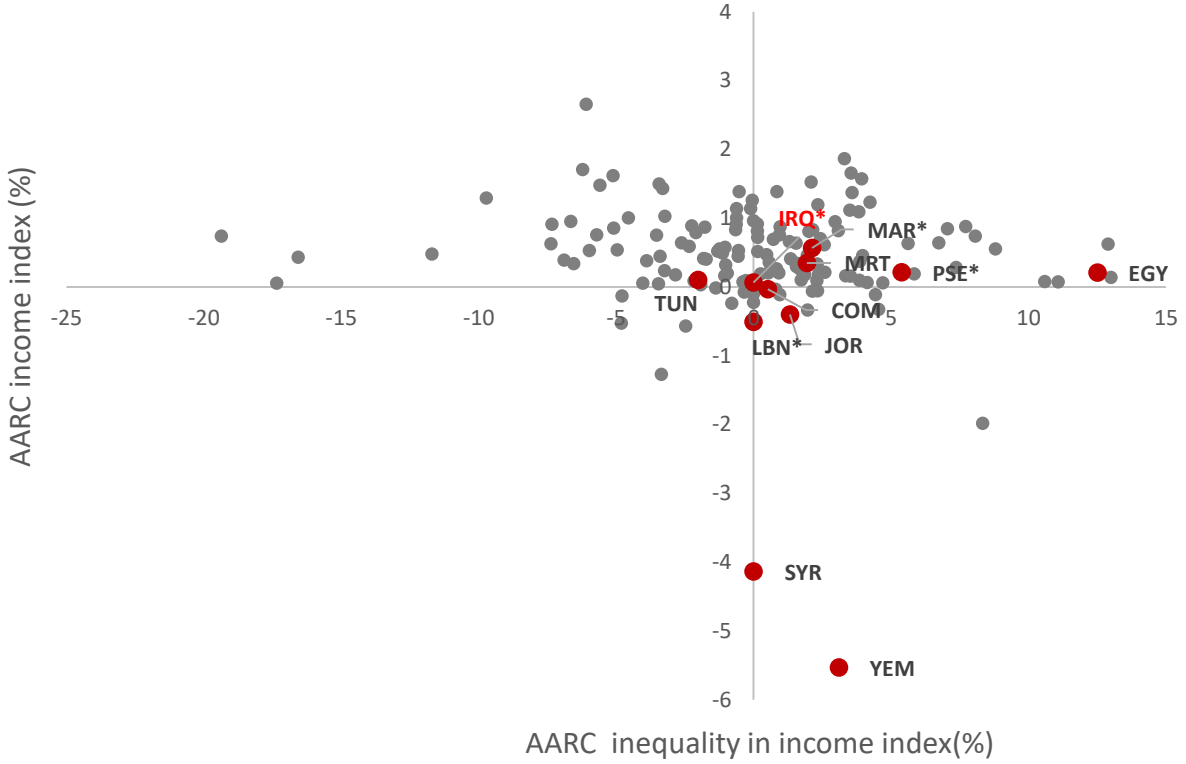
8. Human capital gains set against stagnating income and rising income inequalities

Figure 10 GNI per capita ($2011 PPP) over 1990-2017



Source: Author's calculations based on HDI data

Figure 11 Average annual rate of change (AARC) in income index (i.e. normalized GNI per capita, $ 2011 PPP) and its Atkinson measures

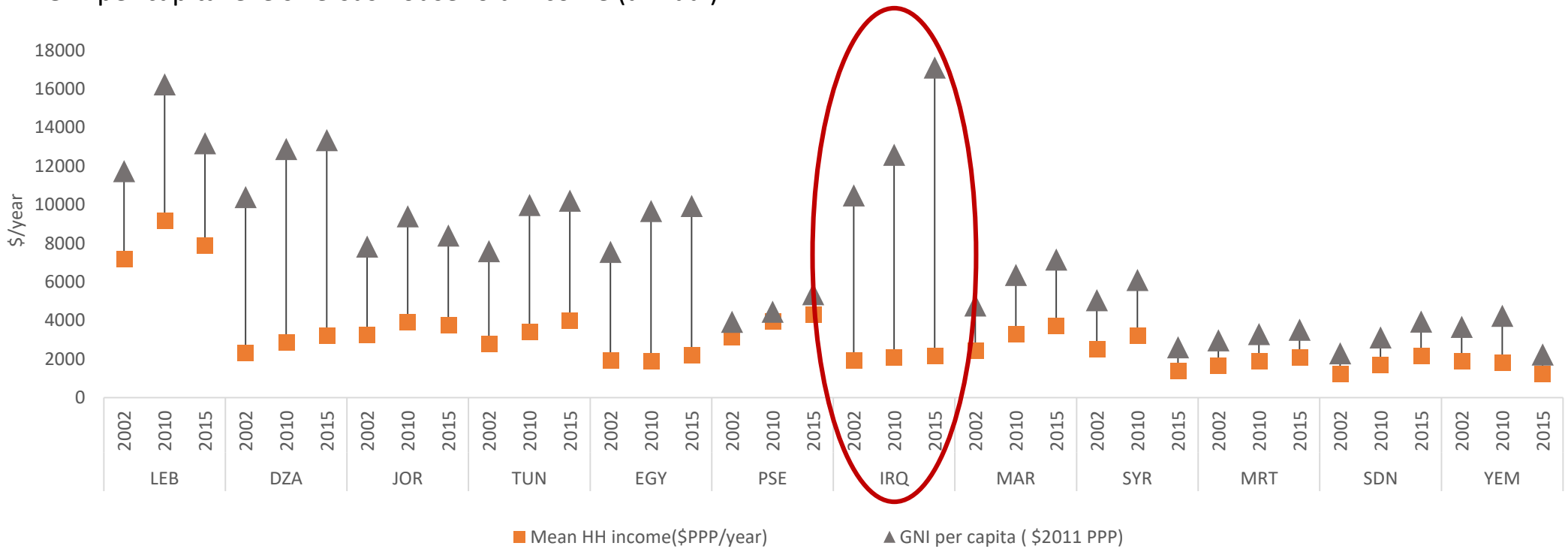


Source: Based on Human Development Indices and Indicators: 2018 Statistical Update, UNDP.
Note that for Lebanon, Iraq and Palestine, the baseline years are 2011 and 2013 respectively due to data unavailability in 2010. For Morocco and Syria, the end-line year is 2015 and 2016 due to data unavailability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

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

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

Figure 12 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.

10. 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.

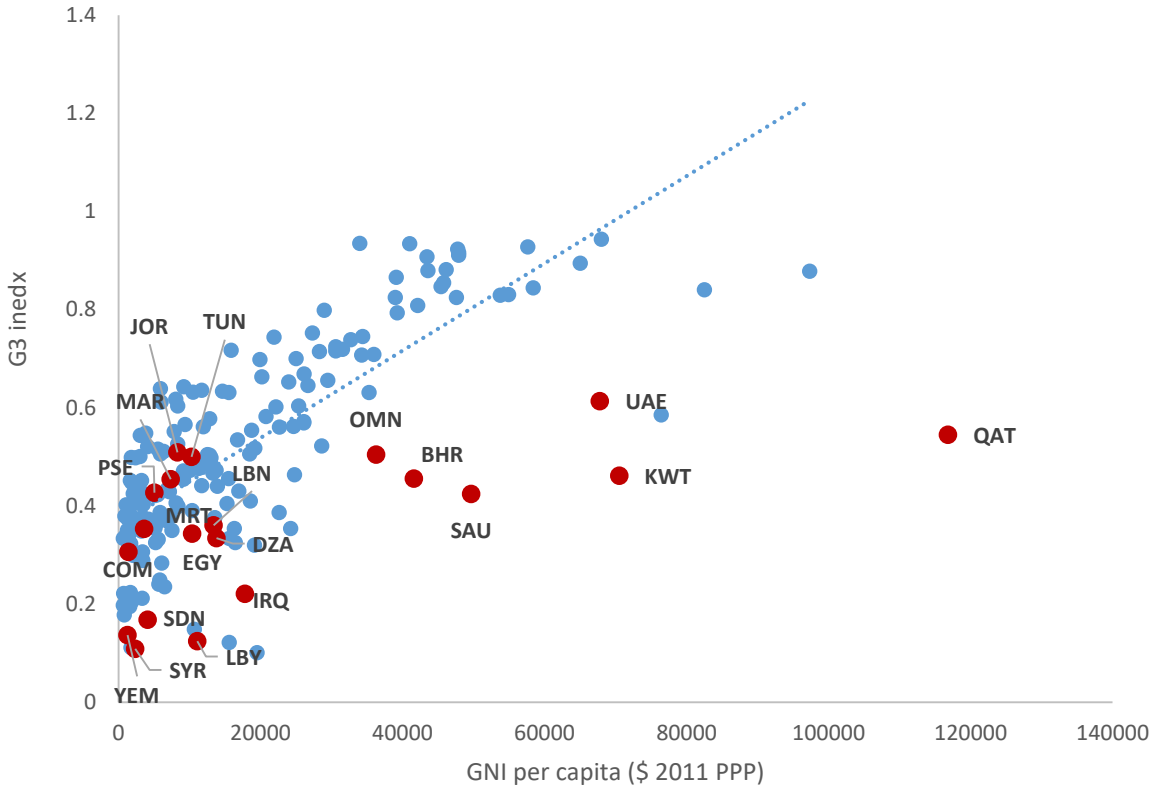
2. Lack of progressive fiscal policies

- 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.

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

Figure 13 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 14 Percentage change in G3 and political stability indices, 2000-2017

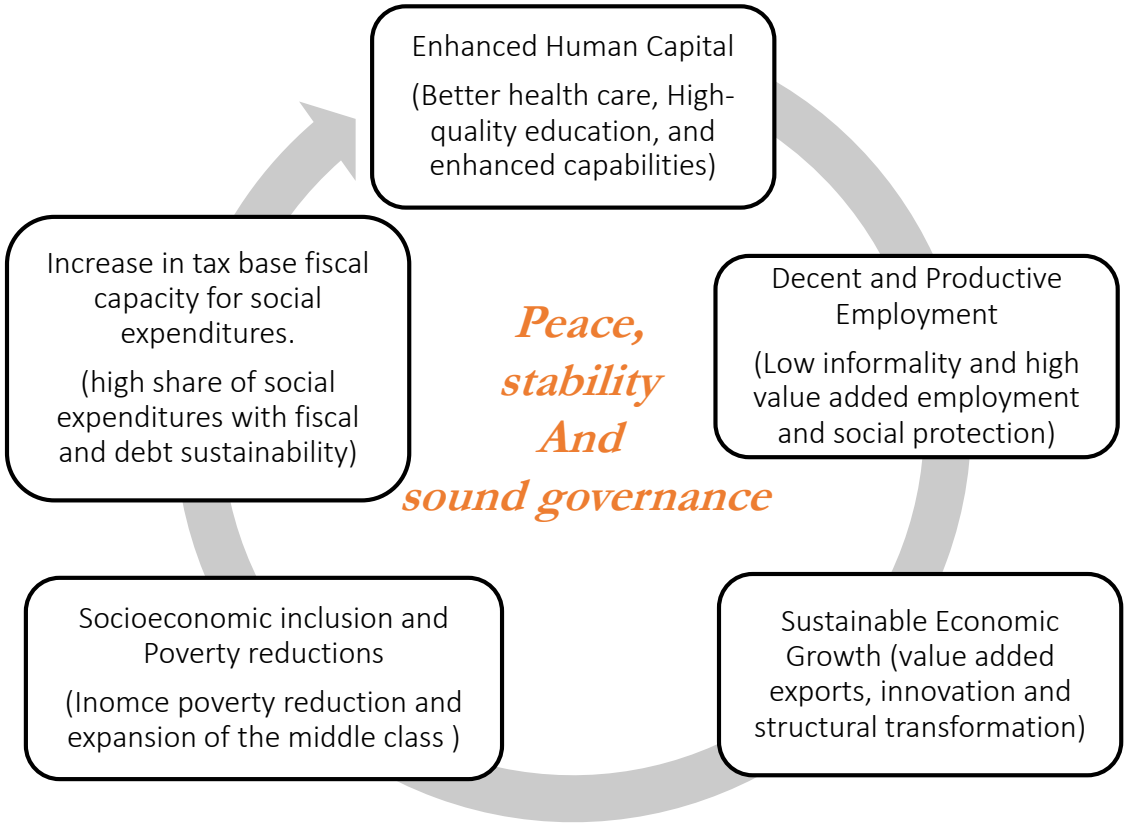
Source: Based on World Governance Indicators (WGI).

Note G3 is the geometric mean of 5 indicators from World Governance Indicators namely rule of law, voice and accountability, governance effectiveness, regulatory quality and control of corruption. The index ranges from 0 to 1, with higher values indicating better governance.

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

Key Message

Figure 15 An illustrative diagram of an integrated approach for reducing inequality



This cycle is not functioning properly in the Arab region

=> Impaired links weaken its functionality

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Thank you !