Economic Inequality in the Arab Region

Development policies in many Arab economies may have led to greater inequality between different areas and socioeconomic groups.

The state-led economic development model adopted by Arab countries following their independence led to remarkable improvements in human development indicators and to moderate levels of poverty and income inequality. Indeed, despite the modest economic growth in the Arab region, its levels of poverty and inequality compared favorably with those in all other developing regions.

In the early 2000s, however, the postindependence development model began to feel the burden of its weight and these gains started to unravel, ushering in rising inequality of different forms. Disparities between different areas and socioeconomic groups within economies have widened. Inequality of opportunity has also emerged as a serious concern in the region. Whether these inequalities helped lead to the Arab Spring is difficult to ascertain, but the demand for greater equity and inclusion has brought the issue of economic inequality to the forefront for Arab governments.

A recent paper by Belhaj Hassine attempts to contribute to the understanding of consumption expenditure inequality in the region. The analysis draws on harmonized data from 28 household surveys in 12 Arab economies to assess inequality over time and to examine its sources and structure. Given the importance of regional disparities and imbalances in many Arab economies and their contribution to social unrest, the paper devotes special attention to the analysis of rural-urban and metropolitan-nonmetropolitan inequality across the entire welfare distribution and attempts to draw policy implications for the design of strategies to address inequality and promote equity.

The analysis finds moderate levels of inequality, with the Gini coefficient for the distribution of per capita household expenditure ranging from less than 32 in Libya and the Arab Republic of Egypt to more than 40 in Mauritania, Tunisia, and the Republic of Yemen. Arab Spring countries exhibit varying patterns of income and inequality, with low income and low inequality in Egypt, low income and high inequality in the Republic of Yemen, medium income and low inequality in Libya, medium income and medium inequality in the Syrian Arab Republic, and relatively high income and high inequality in Tunisia.

The most important determinant of economic inequality in Arab economies appears to be the demographic composition of households, followed by their geographic location. The persistence and widening of urban-rural and regional inequalities are of serious concern for the prospects for social cohesion and inclusive growth. These inequalities may exacerbate the social and economic instability that pervades the Arab world and could undermine popular support for market economy reforms.

To help improve the understanding of the sources of spatial inequality, the paper uses the unconditional quantile regression method and decomposes the interregional welfare gap across the entire distribution into the differences in household endowment characteristics such as age, education, and employment and the differences in the returns to these characteristics.

The analysis finds that urban-rural inequality is due primarily to differences in the distribution of household characteristics. Despite the rural development efforts that have been pursued by Arab governments, urban households continue to have much better endowments of demographic and human capital attributes than their rural counterparts and this difference explains most of the welfare gap between the urban and rural sectors. The relative effect on inequality of differences in household endowments is particularly strong for poor and middle-class households.

The analysis of the sources of inequality between metropolitan and nonmetropolitan areas shows different patterns across Arab economies. In Egypt, the United Arab Emirates, and the Republic of Yemen differences in the returns to household endowments have a greater effect on inequality than do differences in those endowments, particularly for middle-class and better-off households; this suggests that although metropolitan households enjoy better endowments, the inequality in these countries is explained mainly by the higher returns to these endowments in metropolitan areas. In the Syrian Arab Republic and Tunisia, by contrast, the differences in household endowments are more important in explaining why metropolitan households are better off than their counterparts.

The findings suggest an urban and metropolitan bias in the development policies of many Arab governments, which led to growing welfare inequalities along rural-urban and regional lines. Furthermore, the lack of employment opportunities and agglomeration economies in nonmetropolitan areas may have led to lower returns to human capital investments in these areas than in metropolitan areas.

The market economy reforms implemented in some Arab economies during the past decade appear to have been more beneficial for households that had better human capital endowments at the time of the reforms. This would have contributed to faster growth in the returns to urban and metropolitan households, particularly in the returns to their education and experience. Further reforms may exacerbate inequality if the obstacles to balanced regional development are not adequately identified and addressed.