

“A continuation of past redistributive policies in the post–Arab Spring period is not a viable option.”

# Equality and Authoritarianism in the Arab World

AHMED GALAL

It is impossible to find a single country, now or at anytime in history, where all citizens have enjoyed full equality. The Arab countries are no exception. Even in socialist countries, it was observed that party members were fatter than non-party members. They also enjoyed a variety of perks and opportunities that others did not enjoy.

## Inequality On the Rise

Third in a series

Surely, Sweden is more egalitarian than the United States, yet within Sweden, not all Swedes are equally well off. It is tempting, thus, to ask:

Why should anyone worry about inequality if it is a fact of life? Some portion of existing inequality, moreover, results from variations in effort rather than in initial conditions or endowments.

The above reasoning is compelling but misses the point. Inequality ought to take center stage for a variety of reasons. To begin with, a growing body of literature supports the view that inequality of opportunity accounts for a significant part of inequality of outcomes within and between countries. A Norwegian by birth is ahead of a South African by birth. An Egyptian born to rich and educated parents is privileged over an Egyptian born to poor and uneducated parents.

Second, significant levels of inequality can have large negative effects on human welfare and society, especially if inequality is associated, or perceived to be associated, with corruption. At the individual level, severe inequality has deleterious effects on the quality of life, if not life itself, of the poorest segment of the population. At the level of society, inequality breeds crime in countries like Brazil, and is said to have contributed to the recent uprisings in some Arab countries.

Finally, it is increasingly recognized that the economies of more egalitarian societies grow faster than those of sharply unequal societies, negating the long-held view that with patience the fruits of development will eventually trickle down from rich elites to the masses.

Concern for inequality is therefore justified on ethical and developmental grounds, and in this respect again, the Arab world is no exception. What is distinctive about the Middle East is the apparently paradoxical coexistence of “moderate inequality” with the prevalence of nondemocratic regimes. Reducing inequality sustainably will require moving away from past redistributive policies toward inclusive growth, fairer fiscal policies, and effective targeting to increase opportunities for the poor.

## GAUGING INEQUALITY

Inequality can be measured in a variety of ways. One measure is the Gini coefficient, which focuses on variations in income across households within one country or across countries. Another measure is the distribution of physical and human capital within the population or across nations. More recently, attention has been given to inequality of opportunity, focusing on the extent to which initial circumstances, as opposed to effort, account for variations in earnings or attainment of education or health services. Finally, the severity of inequality is sometimes measured by the perception of it among different groups in society according to opinion surveys. By most of these indicators, the Arab world is considered a “middle inequality” region in comparison with the rest of the developing world.

With an average Gini coefficient of .39 over the period from 1970 through the 1990s, the Arab region fares much better than Latin America (with

AHMED GALAL, a former World Bank economist, is managing director of the Economic Research Forum in Cairo.

a Gini coefficient of .49) and sub-Saharan Africa (.44). The region only falls notably behind South Asia (with a Gini coefficient of .34) and Europe and Central Asia (.33). The ratio of the income of the richest to the poorest quintile in the Arab region is sevenfold, which is also in the middle range of the corresponding averages for other developing regions.

Focusing on the poor, the extent of poverty in the Arab region, defined as income below \$1.25 a day, is very low. With a poverty rate of 4 percent, Arab countries exhibit less than one-fifth the average poverty rate for other developing nations. Based on a higher income threshold (\$2 per day), poverty in the Arab world is still less than half the average for developing countries.

In the above discussion, the Gini coefficients are taken as given. However, household income surveys are known for failing to capture the income of the richest percentile of the population. Exacerbating the problem further is that most Gini coefficients in the Arab world are based on household expenditures, not income data, and household expenditures tend to underestimate inequality by several percentage points.

Perhaps more important, the Gini coefficients do not differentiate between variations in outcomes (income or consumption) that are attributable to variations in effort as opposed to those attributable to initial circumstances. When some of the initial circumstances are taken into account (for example, whether the family is rich or poor or whether the parents are educated or not), available evidence indicates that more than 20 percent of the variations in earnings, educational attainment, or accessing health services can be traced to circumstances beyond the control of families.

A similar pattern emerges with asset inequality. Whether in relation to the distribution of physical or of human capital, the evidence suggests Arab countries are not the most unequal in the developing world.

With respect to education, it is remarkable how much progress has been made in the region over the past half-century. Between the 1960s and 1990s, access to primary education went up from 64.3 percent to 97.9 percent in the relevant age cohort. In secondary schools, the enrollment ratio went up from just one fifth of the relevant age cohort to 73.6 percent during the same period. Prog-

ress was no less significant at the level of higher education. As a result, the average years of schooling increased from 1.3 in 1950 to 7.7 in 2010. Expectedly, as education spread to poor families who tend to drop out for a variety of reasons, the distribution of the average years of schooling among the population worsened, with the standard deviation going up from 1.7 percent in 1950 to 3.2 percent in 2010.

Similarly, health services have been made more accessible, and increasingly so over time. For example, the region's average public health expenditure as a percent of GDP increased from 2.7 percent in 1995 to 3.2 percent in 2010. Sustained attention to health issues has resulted in a significant increase in life expectancy, which reached 72 years in 2007 compared to just 48 years in 1960. Meanwhile, fertility rates have declined by 4 infants per woman, and infant mortality rates have gone down by more than 100 per thousand lives at birth.

Regarding land distribution, the evidence is scanty. However, available qualitative accounts indicate that land ownership in the first half of the twentieth century was concentrated in the hands of the ruling elite and colonial loyalists. Ownership of industry, trade, and banks followed the same pattern. The majority of the Arab population was either landless peasants or poor workers. In Egypt, for instance, 1 percent of the population possessed one-fifth of the land and 4 percent controlled one-third. In contrast, 44 percent of all rural inhabitants were landless.

This pattern of ownership changed after 1952, with land reform bringing about a pyramid of landownership that is truncated at the top and widened at the base. In the 1950s and early 1960s, the regime sequestered foreign assets and later nationalized all major industrial enterprises, banks, and trade. The distribution of assets was made more even than at any time before.

To be sure, land reform occurred not only in Egypt but also in other countries in the region, including Syria and Iraq. However, the magnitude and nature of the reform in Egypt were more significant. What all countries in the Arab world have had in common is increased attention and resources devoted to improving access to education and health services, along with a host of other redistributive policies.

---

*To ensure they stay in power,  
rulers have engaged in a wide  
range of redistributive policies.*

---

But even if the figures for inequality are reasonable, perceptions of inequality may not be. The middle class and the poor may develop strong feelings of social injustice if they observe a notable divergence between the way they live and the way the rich live. For example, the proliferation of slums around cities, along with the construction of new high-rises in the center of towns and luxurious houses in protected compounds, can trigger a sense of injustice even if Gini coefficients are relatively low. If these perceptions are associated with high levels of corruption, the rage is even more intense.

In the Arab countries, a systematic measure of the perception of inequality is not available. However, divergences along the lines described above can be seen everywhere, from Dubai to Cairo to Tunis. At the same time, the Corruption Perceptions Index for the region (published by the non-governmental group Transparency International) is not only high but getting worse over time. This observation applies to such diverse countries as Egypt, Iraq, Libya, Algeria, Sudan, Lebanon, Syria, and Yemen.

In short, typical measures of inequality suggest that the Arab region is not an outlier by international standards. However, the perception of corruption is high, which fuels feelings of injustice that might not have developed had people believed that getting rich is the result of working hard under fair rules of the game.

## DRIVERS OF EQUALITY

What, then, has the region done to stay away from an extreme pattern of inequality? Did high levels of economic growth eventually reach most of the population, or was it redistributive policies? The short answer is that it was redistributive policies.

Economic growth in the Arab countries has never been as high and durable as it has been, for example, in China and India over the past two to three decades. The region grew at an average annual rate of 4 percent between 1976 and 2011. At this rate, the pie did not grow fast enough to enable the majority of the population to be part of the production process and to benefit from this growth. Making things worse, the region has simultaneously experienced very rapid population growth, with the labor force growing by more than 3 percent a year.

Within the region, oil-rich countries have grown much more slowly than oil-poor coun-

tries. Moreover, because of large fluctuations in oil prices, they have also experienced more economic volatility than the oil-poor countries. As such, the fact that oil-rich countries achieve near full employment is not an indication of impressive growth performance. Rather, it reflects a desire on the part of governments to distribute rent among citizens, even if through low-productivity jobs.

In the non-oil rich countries like Egypt, Tunisia, and Jordan, growth has been in the neighborhood of 5 percent per annum for decades. The problem is that economic growth has not always created jobs or been inclusive. It has left behind around 40 percent of the workers in the informal sector and failed to provide decent jobs to an increasingly young and educated population. As a result, unemployment rates have been in the double-digit range and mostly concentrated among youth and women.

Unlike land redistribution, which took place in a few nations, all countries in the region have sustained an extensive welfare agenda for decades. In both oil-rich and oil-poor Arab countries, redistributive policies include not only higher expenditures on health and education, but also employment guarantees in government, rent control, subsidized commodities, and explicit transfers. At the same time, taxation is rarely used as an effective redistributive mechanism.

On the expenditure side, large oil revenues in some countries have enabled governments to engage in generous transfers to citizens. Between 2003 and 2010, for example, subsidies and transfers in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates were between 14 percent and 35 percent of total government expenditures. Beyond explicit subsidies and transfers, many citizens receive free health care, education, and social security. Utilities (electricity, water, and fuel) are also subsidized. Perhaps more important, the most frequently used mechanism for redistribution is the provision of well-remunerated public jobs. These jobs tend to be for life, paying high wages and entailing short working hours and generous fringe benefits.

## THE COST OF QUIET

When political upheavals erupted across the Arab world in 2011, Gulf governments used their oil rents to calm citizens. Kuwait and Bahrain gave out cash, Bahrain and Oman provided public sector jobs, and Saudi Arabia and Oman raised workers' wages and benefits. The Saudi government

approved a \$130 billion increase in such expenditures. The money is to be spent on, among other things, the creation of 120,000 new public sector jobs, building 500,000 houses, setting a higher minimum wage in the public sector, a one-time bonus for incumbent civil servants, and the creation of a general unemployment assistance scheme.

In the oil-poor countries, the pattern of distributive policies is not very different. For example, until the early 1990s, the Egyptian government guaranteed all graduates a job in government. This policy was lifted at that time, but the legacy of such policies has lingered on. Since the early 1960s Egypt has maintained food subsidies, energy subsidies, rent control for all buildings except those built recently, and a social welfare program for the poorest segment of the population. Similar policies have been adopted to varying degrees by other countries in the region, including Morocco, Tunisia, and Jordan.

The oil-rich countries do not rely much on taxation to bring about more equality. In Kuwait, the revenue from direct and indirect taxes averaged only 1 percent of GDP in the 1990s and 2000s. In Bahrain, it was less than 5 percent. This low level of revenues from taxation can be explained in part by the abundance of oil rents, and in part by a desire to forgo taxation so as to avoid representation.

The oil-poor countries adopted progressive taxation in the 1950s and 1960s, but it led to widespread tax evasion. More recently, income tax rates have been revised downward to promote investment. At the same time, indirect taxes (sales or value added taxes) have become increasingly a major source of government revenues. In Egypt, revenues from direct taxes relative to GDP averaged 5 percent in the past two decades, whereas revenues from indirect taxes were twice as large (10 percent of GDP). In Jordan, the distribution of revenues from taxes is even more regressive, with the share of direct taxes to GDP averaging around 3 percent in the past two decades, compared to 16.5 percent from indirect taxes. (Indirect taxes are regressive because they are levied on consumption rather than income, and the poor tend to spend most of their income on consumption.)

So growth has not been the main factor moderating inequality in the region. Redistributive policies through government expenditures are the

primary driving force. Taxation is hardly used to generate revenues for governments, even less as a progressive instrument for bringing about more equality.

## THE AUTHORITARIAN BARGAIN

Why has the region adopted redistributive policies so extensively? Two broad explanations are possible. The first is cultural, especially as it relates to Islam. The second is political and refers primarily to the nature of the distribution of power within Arab countries. Presumably, countries with more inclusive political institutions are likely to have more egalitarian societies than those that do not.

Considering culture first, some analysts have suggested that the low levels of inequality in the region may be attributed to the “Zakat”—a wealth tax according to which Muslims are supposed to donate 2.5 percent of their wealth each (lunar) year to charitable causes. Consistent with this explanation, some studies report an inequality-reducing effect of Islam of between 10 and 14 Gini points, leading them to conclude that Islamic countries are the “most intrinsically equal” after controlling for other variables.

While Zakat may have played a role in bringing about more equality in the region, the political explanation seems more convincing. Until recently, almost all countries in the region were classified (by the political monitoring group Freedom House) as “not free.” Power has been concentrated in the hands of small elites, with limited checks and balances or accountability. The rulers traditionally have been in a position to design the rules of the game in their favor. But to ensure they stay in power, rulers also have engaged in a wide range of redistributive policies.

This pattern of behavior has come to be known as the “authoritarian bargain” model. In the Arab countries, rulers struck a bargain with the citizenry according to which they exchanged economic handouts for political consent. To keep their citizens satisfied, they granted them public jobs, free health and education services, subsidized products, and even cash. At the same time, they kept a significant part of the nations’ wealth to themselves and their associates through various channels, including the way public contracts were awarded, concessions given, and lands allocated.

---

*Signs of a shift toward  
more inclusive institutions  
are evident in the region.*

---

So what disturbed this equilibrium in the past couple of years in Tunisia, Egypt, Yemen, Libya, and Syria? Explanations for the revolts in these countries vary, but the one most consistent with the authoritarian bargain model is that the old social contract came increasingly under stress and finally broke. Economic liberalization that began in the second half of the 1980s in several nations meant that subsidies had to be curtailed, market distortions were reduced, and more competition was encouraged. It also meant a greater role for the private sector, which in nondemocratic regimes translates into crony capitalism and collusion between wealth and power.

At the same time, economic growth was not fast enough to absorb an increasingly youthful and educated workforce. The middle class was squeezed. And all this was happening at a time when the world was becoming more democratic and more connected through new social media. The revolts were thus inevitable. The question was not whether the region was on the verge of change, but when that change would take place.

## OUTDATED POLICIES

Now that change has taken place in a few countries in the region and is being contemplated in others, two questions are pertinent. The first is whether the old pattern of redistributive policies is still viable. The second concerns the nature of emerging political institutions, and whether they are likely to be more inclusive and equitable. The short answer to the first question is “no”; to the second, “likely.”

The way “moderate equality” has been achieved in the Arab countries is inefficient, costly, and even inequitable. While offering public sector jobs may contribute to resolving the unemployment problem now, it makes it difficult to create new jobs for the newcomers in the future, as resources are not spent on productive assets. This policy will also become infeasible over time as government resources diminish. Certainly, oil-producing countries can sustain this practice longer than oil-poor countries, but it is a question of time until natural resources are depleted. Job-creating growth is obviously the most desirable and sustainable solution.

As for the policy of subsidizing certain products, it essentially means that some of the benefits

will leak to the rich or the middlemen through arbitrage. The associated price distortions lead to suboptimal levels of production and consumption, in addition to wasting scarce resources and imposing a burden on government budgets. The best option is to target those who need help with such programs as conditional or unconditional cash transfers.

The issue of making education and health services free of charge to all citizens is debatable. On the one hand, education and health generate benefits to society that go beyond private gains, which justifies government support. When the poor acquire these services, they are better prepared to achieve upward social mobility.

On the other hand, there are no guarantees in practice that government spending on health and education will necessarily benefit the poor the most. Available evidence suggests that the rich tend to benefit more from free access to social services. For example, it has been found that government spending at the primary and secondary levels of education is progressive in Asia and Latin America, but not progressive in sub-Saharan Africa and the Middle East.

A study of higher education in Egypt has shown that a student born to rich and educated parents who live in urban areas has a 98 percent

chance of enrolling in higher education, whereas a student who is born to poor and uneducated parents who live in rural areas has less than a 5 percent chance of enrolling in higher education. Some means testing for benefits seems necessary, at least at the level of higher education.

Finally, policies that favor certain groups over others tend to create rent-seeking behavior and even corruption. As a result, values such as honesty, hard work, and loyalty to society tend to erode. If nothing is done in due course, revolts may be the only way out, as seems to have happened in some Arab countries. A continuation of past redistributive policies in the post-Arab Spring period is not a viable option. Inclusive growth, targeted benefits, and progressive taxation are.

## MORE INCLUSIVE

Predicting what is likely to happen in post-revolution countries is hazardous at best. But the recent spread of democratization in Eastern Europe, Latin America, Asia, and Africa suggests that

---

*The evidence suggests Arab countries are not the most unequal in the developing world.*

---

at least some of the Arab Spring countries are likely to move away from autocratic to more democratic regimes. With more inclusive institutions, it is likely that the voice of the majority will be heard, which will cause a shift in policy making in favor of a more inclusive agenda.

The Arab uprisings offer clear evidence that the previous mode of governance failed to provide a satisfactory life for the majority of citizens. The social contract, which had survived economic hardships and waves of democratization the world over, finally broke. Surprisingly, it first broke in Tunisia and Egypt, two countries in the region that were hailed right before the uprisings for achieving high levels of economic growth. Inequality or social justice were important reasons for these uprisings; hence the demand for greater equality in the future.

Signs of a shift toward more inclusive institutions are evident in the region. Within less than two years, both Egypt and Tunisia have taken steps toward building more open societies. They are in the process of drafting modern constitutions with checks and balances. New parties have been formed. Free parliamentary and presidential elections have been held. The media have become freer, and the market for ideas has flourished.

To be sure, tensions are rising, and a final political settlement is far from being reached. Temporary setbacks and detours remain possible, even likely. Still, pressure is mounting for moving in a more inclusive direction. Interestingly enough, the kings of Morocco and Jordan attempted to get ahead of the curve by introducing constitutional changes that relinquish some power to elected bodies.

The new regimes are not likely to be able to ignore the demographic reality in the region. Currently, approximately half of the population is under the age of 25, causing intense labor market pressures. The share of the working-age population (15 to 64) increased from 51 percent in 1970 to 62 percent by 2010 and is expected to peak at 66 percent by 2040. The region's 3 percent annual labor force growth is one of the highest in the world. This translated in 2009 into more than 4 million new entrants to the labor market, more than half of them belonging to Egypt, Sudan, Morocco, and Algeria.

In short, the redistributive policies of the previous autocratic regimes are no longer viable. With the Arab uprisings, the room both for more inclusive political institutions and for more inclusive economic growth is likely to expand. ■