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Inequality and Its Discontents in the Middle East

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In December 2018, an increase in bread prices pushed Sudanese to take to the streets, ultimately leading to the downfall of then president Omar al-Bashir. In Egypt in September 2019, Mohammed Ali, an exiled businessman and former building contractor for the military, recorded a video describing how President Abdel-Fattah el-Sisi had embezzled public funds to finance, among other things, a luxury home for himself. The video went viral and led to mass protests. In October 2019, Iraqi protesters took to the streets to demand basic services such as clean water and electricity. Around the same time, the Lebanese people revolted after the government announced a tax on WhatsApp and other mobile applications, adding to a long list of austerity measures during the year that disproportionately affected the most vulnerable among the population. Finally, in Iran, a hike in gasoline prices led to wide-ranging demonstrations in November 2019.

By and large, the triggers of these protests were similar. Citizens were protesting declining living conditions and calling for an end to economic orders that allowed small and corrupt political classes to live at the expense of the majority. Even in Algeria, where the causes were not explicitly economic, demonstrators also demanded greater economic opportunity. In other words, the protests were aimed at provoking a revolution of the existing political systems and ensuring a fairer distribution of national resources.

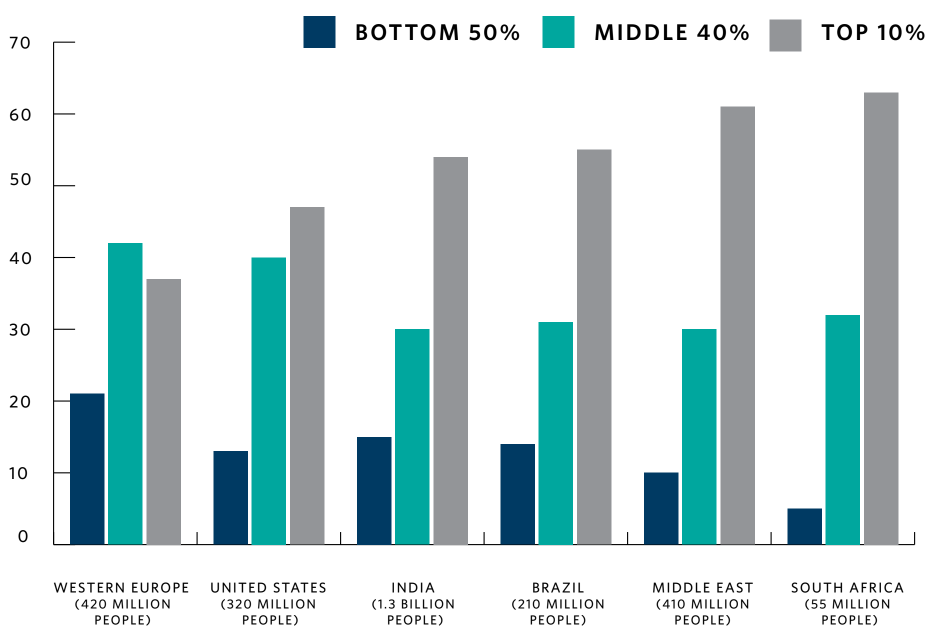
The protesters' claims are symptoms of several developments in the region in recent years. Economies have liberalized, populations keep growing, and many countries are shaken by conflicts and deal with a growing number of refugees. Due to declining oil prices, it is no longer possible for governments to redistribute wealth by integrating their citizens into the public workforce or providing large subsidies. This has led to an increase in inequality and with it, a questioning of the social contract in many countries in the region.

THE MOST UNEQUAL REGION IN THE WORLD

According to the available data, the Middle East is indeed the most unequal region in the world: a 2018 study by the World Inequality Lab collected and combined all available income and wealth data for fifteen countries in the region for the first time—from Egypt to Iran and from the Gulf countries to Turkey—to produce estimates of income inequality at the regional level for the years 1990 to 2016. The results are striking: during this period, 64 percent of total regional income went to the top 10 percent of income earners in the Middle East, compared to 37 percent in Western Europe and 47 percent in the United States. According to the numbers, regional income inequality in the Middle East is as high as in the most unequal individual countries, such as Brazil and South Africa (see figure 1).

The regional income distribution also displays an extreme polarization. The top 10 percent of richest individuals received more than six times as much as the bottom 50 percent of the population (see figure 1). The middle 40 percent of the distribution, which broadly speaking represents the middle class, was left with far less share of income than the top 10 percent in the region—between 20–30 percentage points less. This is quite different from Europe or the United States, where the middle class received more or about the same income share as the richest 10 percent over the same period. The bottom 50 percent of the population received only about 9 percent of total income in the Middle East, as opposed to 18 percent in Europe.

FIGURE 1
Inequality in Middle East Is on Par With World's Most Unequal Places



SOURCE: Adapted from Facundo Alvaredo, Lydia Assouad, and Thomas Piketty, "Measuring Inequality in the Middle East 1990–2016: The World's Most Unequal Region?" Review of Income and Wealth 65, no. 4 (December 2019): 700.

NOTES: National income among adults is calculated before taxes and transfers and excluding pensions and unemployment insurance. Corrected estimates combine survey, fiscal, wealth, and national accounts data. The data are equal-split series (income of households divided equally among adult members). Figure shows latest years of data available (2012–2016).

Comparing income levels across the world, the top 10 percent and the top 1 percent of income-earners in the Middle East had income levels broadly comparable to their counterparts in high-income countries, such as Western European countries or the United States. At the same time, the 50 percent poorest individuals are left with much less income. Their levels of income are more comparable to that of their counterparts in other developing countries (see table 1).

The extreme inequality in the region is due, first, to enormous income differences between oil-rich and population-rich countries. For example, in 2016 the Gulf States represented only 15 percent of the total population of the region but received almost half of total regional income. In other words, the first driver of inequality in the Middle East is the major gap in average income between the Gulf countries and other Arab countries, due to revenues from hydrocarbons.

Inequality is also likely to be extreme within each country, even if it is currently difficult to have precise estimates due to lacking data. The only country in the region with reliable inequality figures is Lebanon.

Such extreme levels of inequality at the regional level and within individual countries are not new and are primarily due to long-lasting and well-known structural factors. Several countries—Algeria, Egypt, Iraq, Lebanon, and Sudan—are rentier states. Their economies depend mostly on income from oil, gas, the financial sector, real estate, remittances, foreign aid, or a combination of these, as opposed to being productive and industrialized economies. This is not a problem *per se* if the accrual of rent is complemented by inclusive institutions that redistribute rent. However, in the Middle East, such resources are usually in the hands of hereditary rulers or institutions controlled by the political leadership and their partners in the private sector, in a context where

TABLE 1

Average Incomes in Highly Unequal Places

Individual Type	United States	Western Europe	Middle East	Brazil	South Africa	India
Full population	**€37,938**	**€34,214**	**€22,760**	**€9,115**	**€8,439**	**€4,391**
Bottom 50%	9,560	14,308	5,002	2,530	848	1,345
Middle 40%	38,301	35,916	17,499	6,964	6,654	3,343
Top 10%	178,372	126,938	132,594	50,638	53,538	23,808
incl. Top 1%	766,341	417,501	553,321	258,389	154,877	95,388
incl. Top 0.1%	3,535,792	1,553,248	2,043,377	1,244,246	486,861	378,319
incl. Top 0.01%	16,514,272	6,143,396	8,999,447	5,889,223	1,457,794	1,684,895
incl. Top 0.001%	72,081,591	24,494,358	18,569,002	28,231,860	4,286,839	17,278,335

SOURCE: Adapted from Lydia Assouad, Lucas Chancel, and Marc Morgan, "Extreme Inequality: Evidence from Brazil, India, the Middle East, and South Africa," American Economic Association Papers and Proceedings 108 (May 2018): 122, https://www.aeaweb.org/articles?id=10.1257/pandp.20181076.

NOTES: Values are expressed in 2016 euros adjusted for purchasing power parity. The unit is the adult individual (at least twenty years old). Income of married couples is split in two, except for the Middle East, where household income is split equally among all adult household members. Income corresponds to pretax national income. Corrected estimates combine national accounts, survey findings, and fiscal data.

the line between public and private capital is blurred. This creates important advantages for elites and breeds clientelism and corruption even in countries with economies not primarily based on rents, such as Turkey. Such situations institutionalize rent-seeking behavior and prevent the establishment of political checks against the growth of opaque business-government relations and mechanisms allowing for a redistribution of wealth.

Elites can easily appropriate shares of the main sources of revenue, which creates large wealth and income disparities. A recent study shows that in the Gulf countries, as in other petroleum-rich autocracies, an increase in the price of oil translates into an automatic increase in the proportion of hidden wealth. In other words, in those countries elites systematically take a percentage of the main source of national revenue by placing money in offshore accounts. In countries with stronger institutional checks to prevent siphoning off funds, such as Norway, the same pattern is not observed. The ability of elites to appropriate part of their country's main revenues is not restricted to oil producers and has been widely documented in other countries, such as Lebanon. Add to that ethnic, religious, tribal, or familial cleavages, and you obtain a perfect recipe for extreme inequality. Such cleavages tend to encourage the formation of patronage, corruption, and clientelist networks along ethnic, sectarian, or tribal lines. The division of national spoils along such lines only amplifies the rents that elites can extract, deepening inequality levels.

A second effect of rentier economies is governments do not depend on citizens' taxes for their maintenance. As a consequence, they have fewer incentives to develop strong state capacity, to respond effectively to public welfare needs, or to be accountable to their citizens more broadly. Looking at fiscal revenues as a share of GDP, which shows the ability of the state to collect taxes, implement social policies, or redistribute economic resources, the ratio is relatively low in most countries of the region or has been decreasing if it was historically high. Tax revenues represent 2 percent of GDP in Iraq, 8 percent in Sudan, 12.5 percent in Egypt, and 15 percent in Lebanon, compared to between 25 and 35 percent in France, Sweden, Denmark, or the United Kingdom, historically strong welfare states. Arab states have relatively weak social protection policies, with only 30–40 percent of the population of the Arab world covered by a formal social protection system. In some cases, such as in Iraq or Lebanon, states fail to provide even basic services.

Other recent developments have increased inequality and help explain the protests in the Middle East during the past year or so. One is the decline in oil prices, which led nine Middle Eastern states to remove or reduce subsidies on fuel, electricity, or water. Because of the drop in oil prices, oil producers and other regional countries adopted austerity measures to offset increases in their budget deficits. For example, Bahrain, the United Arab Emirates, and Saudi Arabia, as well as Algeria, Egypt, Lebanon, and Iran have either raised the value-added tax on goods and services or announced that they planned to do so. Such measures diminish the welfare of the most vulnerable segments of the population and further exacerbate their already precarious living conditions. Such taxes also arrived in a context in which many people, especially the young, are unemployed, and millions live in dire poverty—in Iraq as of 2012, the latest year for which data is available, the poverty rate reached almost 19 percent, and in Sudan it was as high as 46 percent in 2009. In Egypt in 2019 and Lebanon in 2008 (the last year for available data), 32 and 27 percent of the population lived in poverty, respectively. In Algeria, nearly 10 percent of the population was poor in 2016.

The combination of widening inequality and growing poverty makes for a combustible mix in Middle Eastern societies and will continue to undermine stability if it is not addressed. Widening inequality levels fuel conflict and political instability. They also tend to consolidate autocratic power. Fighting poverty and inequality should therefore be key priorities for Middle Eastern states.

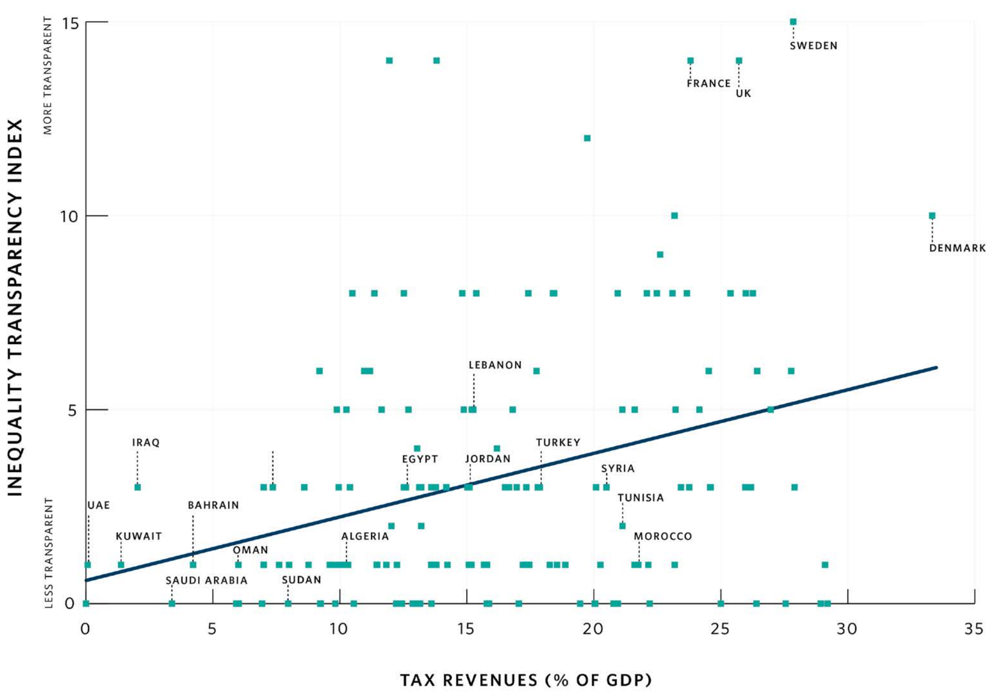
TACKLING POVERTY AND INEQUALITY CANNOT BE DELAYED

A first way to confront this problem is to implement drastic economic reforms to fight inequality in education, health, and taxation. The region is characterized by two-tier public and private healthcare and educational systems. Return to education is also particularly low in the region. The tax systems in most countries of the region rely overwhelmingly on indirect taxes levied on consumption, which are regressive in not taking into account actual income levels. Systems of direct and progressive taxation, where tax rates increase with income, are required. Progressive taxation of income and wealth has historically been a powerful tool to deal with extreme inequality and to finance welfare services. At the same time, such reforms should go hand in hand with reversing austerity measures, which are particularly inappropriate in contexts of high poverty, inequality, and unemployment. Esther Duflo, who received the Nobel Prize in Economics in 2019, underlined the problem. She observed, "Politicians now realize how big a mistake austerity was. It basically hit people when they were down. It just seems crazy… [to] lower the welfare of people who are already victims of a shock that they didn't cause or want." Leaders and politicians in the Middle East should realize this too.

Second, extreme inequality among Middle Eastern countries shows the need to develop mechanisms of regional redistribution and investment. This is already happening in a way as oil-rich countries regularly loan money to poorer countries. However, such measures are usually sporadic and unpredictable. Given the enormous concentration of income in certain countries, mechanisms such as regional investment funds similar

FIGURE 2

Data Transparency Is Positively Related to State Capacity



SOURCE: "Inequality Transparency Index," World Inequality Database, https://wid.world/transparency; and "Tax Revenue (% of GDP)," World Bank, https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?view=map.

NOTES: For tax revenue as percent of GDP, data are from latest available year. The World Bank defines tax revenue as "compulsory transfers to the central government for public purposes," excluding certain compulsory transfers such as fines,penalties, and most social security contributions. Further, it includes refunds and corrections of erroneously collected tax revenue as negative revenue.

to those developed in the European Union—with permanent transfers between the richest and poorest countries in the order of several percentage points of GDP—could make a large difference.

Finally, it is key to increase data transparency in the Middle East. The absence of proper data and transparency regarding income and wealth is a problem that is particularly acute in the region. Such a lack of basic knowledge about actual levels and trends of inequality prevents not only a public debate over the issue but also the formulation of policies to reduce inequality. The ability to measure inequality actually goes hand in hand with state and fiscal capacity. The quality of data—captured by the new Inequality Transparency Index available on the World Inequality Database—is positively correlated with tax revenues, a common measure of state capacity (see figure 2). Middle Eastern countries score very badly on the transparency index. With the exception of Lebanon, it is currently impossible to derive reliable estimates of the distribution of income and wealth in any country of the region.

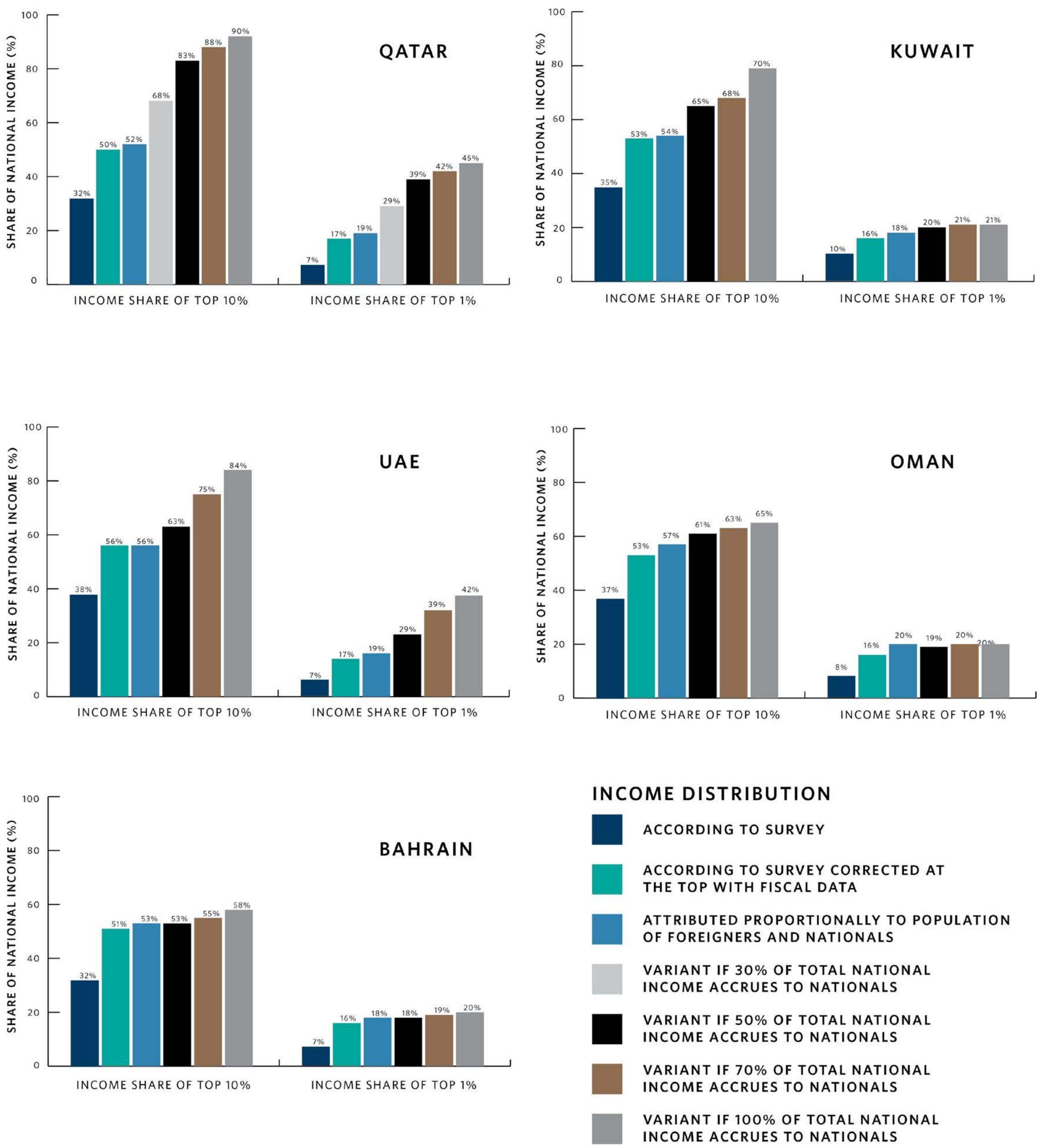
For example, in the Gulf countries a large share of national income is not covered by any data available. There is also no information about the types and amounts of income accruing to nationals or foreign residents—the latter being mostly low-paid migrant workers often living in extremely difficult conditions who entered the countries under the exploitative *kafala*, or sponsorship, system that monitors and controls them. Depending on the actual amount of the unrecorded income going to nationals only, inequality statistics may vary a great deal. If credible assumptions about the share of total national income accruing to nationals are made, the share of total national income going to the richest 10 percent in the Gulf countries varies widely (see figure 3). If the share accruing to nationals is 70 to 90 percent, the richest 10 percent receive between 65 percent and 85 percent of total national income. The richest 10 percent may receive as much as 90 percent of total national income in the case of Qatar, the country with the largest share of foreign workers. At the broader regional level, 70 percent of total income goes to the top 10 percent. There is a similar underestimation of inequality levels for countries with a sizable share of foreign workers migrating through a *kafala* system or for countries that host a large refugee population.

Much more needs to be done to understand the levels and trends of inequality and how to address them, especially in the Middle East. States in the region could start by providing access to microdata, giving information about income at the individual or household levels, and income tax data, at least in the form of income tax tabulations. National accounts are of poor quality and are not detailed enough to allow researchers to track income properly. The Economic Research Forum, a regional research organization dedicated to promoting economic research in the Middle East, recently partnered with several regional statistical institutions to gather, harmonize, and share micro survey data online. Its "Open Access Micro Data" platform is a highly useful initiative and an important first step, but much more needs to be done. For example, a debate about wealth taxation, as is taking place today in the United States, is impossible in the Middle East, as the data do not enable analysts to track income and wealth ownership properly or to make precise simulations of the effects of potential reforms.

While the required reforms may be well-known, they will be difficult to implement for two primary reasons. First, political elites, particularly in the Middle East, have no incentive to enact reforms to reduce inequality as they are the main beneficiaries of extreme disparities. Unequal systems allow political and social elites to block steps that might undermine their interests. Throughout the region, the richest tend either to belong to the political class or to be closely connected to ruling elites. This gives them a decisive advantage in shaping policies. Second, even if the elites wanted to implement reforms, endemic corruption would likely hinder such an ambition. Addressing inequality, therefore, requires

FIGURE 3

Inequality in Gulf Countries Depends on Share of Income Accruing to Nationals



SOURCE: Adapted from Facundo Alvaredo, Lydia Assouad, and Thomas Piketty, "Measuring Inequality in the Middle East 1990–2016: The World's Most Unequal Region?" Review of Income and Wealth 65, no. 4 (December 2019): 703.

NOTES: Income is calculated before taxes and transfers, excluding pensions and unemployment insurance among equal-split adults (income of households divided equally among adult members). Survey income estimates use self-reported survey data (but anchor distributions to per-adult national income). Fiscal income estimates combine survey income data and income tax data (but do not use wealth data to allocate tax-exempt capital income). Final estimates (including variants) combine survey, fiscal, wealth, and national accounts data. Estimates of variants are the result of imputing a fraction of missing income (the gap between national income and total survey income) so that the average income in the survey (augmented by the imputation) represents 30, 50, 70, or 100 percent of the average national income and combine survey, fiscal, wealth, and national accounts data.

thinking about who the agents of change can be and how to reverse the sense of fatalism that accompanies and blocks any push for reform. Tackling such systemic problems will not be easy.

CONCLUSION

The protests in numerous countries since 2018 indicate that discontent in many Middle Eastern societies runs very deep. Yet, political elites have shown no aptitude or desire to address social problems. On the contrary, in trying to preserve the status quo, political elites from Sudan to Lebanon to Iraq to Algeria have only provoked strong counterreactions, undermining social peace. At some point this breakdown in social cohesion can create long-term problems for the countries concerned, resulting in an irreversible rift between rulers and ruled. Such a situation would not only reinforce pervasive political and social instability but may also lead to violence—seen rightly or wrongly as a way of imposing change. The dangers of such a situation cannot be emphasized enough, particularly in a region that has been going through cycles of escalating unrest.

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NOTES

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