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POVERTY, INEQUALITY, AND THE “ARAB SPRING”

BY STEPHAN KLASSEN

University of Göttingen, Germany

Sparked by the self-immolation of a deeply disgruntled trader in Tunisia in December 2010, protests and demonstrations spread quickly across the Arab world, toppling long-ruling leaders in Tunisia, Libya, Egypt, and Yemen, and leading to civil war in Syria. In many more countries, it led to protests which were often met with a combination of repression and some political and/or economic reforms. While in some countries, such as Egypt, regime change proved short-lived and led to a military coup, and in others, such as Yemen and Libya, the countries are still mired in civil conflict, in Tunisia the transition to a functioning multi-party democracy appears to have, for now, succeeded.

The intensity of dissatisfaction with the status quo and the willingness of large parts of society to protest against it caught many observers by surprise. Was it related to rising poverty and inequality, or youth unemployment? Or was it more about the dissatisfaction with a lack of political rights and freedoms? This leads to more general questions about levels and trends in poverty, inequality, and well-being in this region of the world in the years leading up to the so-called “Arab Spring,” as well as subsequent trends. To address these issues, the International Association for Research in Income and Wealth teamed up with the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS) to organize a special conference on November 23–25, 2015 in Cairo, Egypt on “Experiences and Challenges in Measuring National Income, Wealth, Poverty and Inequality in the Middle East and North Africa.” Selected papers from this conference, including papers based on the two keynote contributions, make up this special issue.¹

The paper by Devarajan and Ianchovichina (2018), based on the first keynote address by Devarajan, disputes that high or rising inequality was contributing to the Arab Spring. They find that in the Middle East and North Africa region, inequality was generally quite low and often declining. Despite this, subjective well-being was also low and declining, particularly for the middle classes, which they refer to as the “inequality puzzle.” They link this to a fraying social contract where the government provided formal-sector jobs, education, and health care, and subsidized fuel and energy, in return for limited political freedoms. This social contract was becoming economically unsustainable and the implicit promises by the government were being eroded or not kept anymore, leading to widespread dissatisfaction and willingness to protest. They argue that a new social contract is

¹ The program and all presented papers are available at <http://www.iariw.org/c2015/egypt.php>.

required that promotes private-sector jobs, accountability in service delivery, and active citizen participation in the economy and society.

The paper by Assaad, Krafft, *et al.*, (2018), based on the second keynote by Assad, tackles a related issue and investigates levels and trends of inequality of opportunity in wages and consumption in Egypt from 1988 to 2012. Inequality of opportunity attempts to isolate the component of inequality that is due to circumstances beyond the control of individuals, such as family background, race/ethnicity, or gender. They find that inequality of opportunity in Egypt was not particularly high and did not increase, contributing to the inequality puzzle also discussed in the previous paper. They do find, however, that the fortunes of the middle class were moving closer to those of the poor, which reduced inequality of opportunities in that part of the distribution but also promoted widespread dissatisfaction among the middle classes, particularly as their gap to privileged groups widened.

The third paper, by van der Weide, Lakner, *et al.*, (2018), also focuses on inequality in Egypt, but asks whether survey data underestimate inequality and thus might explain the inequality puzzle of dissatisfaction and protests in the Arab Spring despite low measured inequality. In order to get a better estimate of top incomes that are rarely captured well in household surveys, they use house prices in urban Egypt as a proxy for top incomes. They find that their adjustment using house prices raises the Gini coefficient in urban Egypt from 39 to 52, suggesting that inequality might not have been as low as previously thought.

Arampatzi, Burger, *et al.*, (2018) investigate the other part of the inequality puzzle, the low and declining levels of subjective well-being in the run-up to the Arab Spring. They find a significant, negative association between life satisfaction levels and the three main grievances voiced during the Arab Spring, dissatisfaction with the standard of living, poor labor market conditions, and nepotism or cronyism. The increased dissatisfaction with the standard of living contributed the most to the decline in subjective well-being during this period, followed by worsening labor market conditions. In addition, they find that perceptions about corruption became more important for people's life satisfaction, particularly in the countries where the uprisings were most intense.

Related to the previous contribution, Dang and Ianchovichina (2018) use synthetic panels to study objective and subjective welfare dynamics in the run-up to the Arab Spring in Egypt, Jordan, the Palestine territories, Syria, Tunisia, and Yemen. Objective welfare dynamics indicate mixed trends. About half of the poor in the 2000s moved out of poverty by the end of the decade, but chronic poverty remained high. The analysis with subjective well-being data suggests negative developments in most countries during the Arab Spring transitions and provides evidence on the eroding middle-class consensus in Arab countries before and after the Arab Spring. Low educational achievement, informal worker status, and rural residence are associated with lower upward mobility and greater downward mobility according to both types of welfare measures.

Ramadan, Hlasny, *et al.*, (2018) also investigate the inequality puzzle by looking at inter-group expenditure gaps in Egypt, Jordan, Palestine, and Tunisia in the run-up to the Arab Spring. Such inter-group inequalities, sometimes also referred to as horizontal inequality, can be a powerful force of social discontent even when

inequality between households, sometimes called vertical inequality, is not so large. Using unconditional quantile regressions, they find that Egypt and Tunisia exhibit relatively high expenditure gaps across rural/urban and noneducated/educated groups. Expenditure gaps in Jordan and Palestine and those across nonemployed/employed and female-/male-headed households are more moderate and gaps are relatively stable over time. Overall, education and the return to it, geographic location, and household composition play important roles in accounting for economic inequality across social groups.

AlAzzawi (2018) focuses on one particular inter-group inequality and investigates the gender dimension of poverty in Egypt by looking at the fortunes of different types of male- and female-headed households. Using income and expenditure surveys from 1999 to 2013, she finds that female-headed households were poorer than male-headed households for all years in urban areas, and slightly less poor over part of the period in rural areas. The differential is greater for widowed mothers. Most of the poverty differentials between female-headed and male-headed households cannot be explained by differences in endowments in all years. In fact, if female-headed households had the same endowments as male-headed households in urban areas, they would have been poorer than they already were.

The last two papers look explicitly at the role of the state in affecting inequality and poverty in Arab Spring countries. Jouini, Lustig, *et al.*, (2018) study the extent of fiscal redistribution through taxes and government spending and its impact on poverty and inequality in Tunisia. Using the National Survey of Consumption and Household Living Standards for 2010, they apply standard fiscal incidence analysis, using internationally comparable procedures developed under the Commitment to Equity (CEQ) project. The results show that Tunisia's redistributive fiscal policy reduces inequality and extreme poverty significantly. The combined redistributive effect of direct taxes and direct cash transfers is higher in Tunisia than in 24 of the other 29 countries in the CEQ Data Center. Where Tunisia really differs from the rest is in the combined equalizing effect of subsidies and consumption taxes. However, fiscal redistribution increases poverty, implying that a large number of poor people pay more in taxes than they receive in cash transfers and subsidies. This is due to a relatively high burden of personal income taxes and social security contributions for low-income households.

Lastly, Cockburn, Robichaud, *et al.*, (2018) look at the poverty impact of energy subsidy reforms in Egypt and Jordan. As discussed by Devarajan and Ianchovichina (2018), costly energy subsidies were used in many Arab countries and were part of the pre-Arab Spring implicit social contract. As these subsidies have become fiscally unsustainable, politically difficult reforms have been proposed and implemented, often accompanied by protests from beneficiaries. An understanding of the distributional effect of such reforms is important to assess their impact on poverty and ultimately also their political feasibility. Using a dynamic CGE-microsimulation model, the authors study the distributive effects of proposed reforms in Egypt and Jordan. This shows that the reform alone would further exacerbate poverty through increased consumer prices. However, a modest reinvestment of fiscal savings into cash transfers creates a win-win scenario of reduced poverty without significantly sacrificing the fiscal and growth benefits from the reforms.

The papers in this special issue shed much light on the economic and social conditions in the run-up to the Arab Spring. While inequality is higher than standard surveys suggest and can be substantial among social groups, the contributions suggest that rising inequality was not a driver of the Arab Spring rebellions. Instead, it appears more related to the declining fortunes of the middle classes, increasing dissatisfaction with the economic and political situation, and an erosion of unsustainable fiscal and labor market policies that had muted dissent previously. The big open question emanating from these papers is whether the Arab Spring has ushered in a new area of economic and social policies addressing the previous failures. The economic, social, and political sustainability of current regimes and future trends in poverty and inequality in the region will depend on the answer to this question.

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