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Income Inequality in the Middle East

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Overview

This brief looks at the evolution of inequality in the Middle East from 1990 to 2019. During the last decade, a series of popular movements took place in the region, where demonstrators called for more social justice, shedding light on the high level of inequality in the region compared to the rest of the world. Three main findings are worth focusing on. First, the regional top 10% share has been persistently high for the last three decades, it captured 56% of the national income in 2019, which makes the Middle East a highly unequal region. Second, Gulf countries are the most unequal in the region. Third, Inequality levels remained unchanged over the last three decades, this is driven by the extreme levels of within-country inequality.

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Introduction

During the last decade, a series of popular movements took place in the Middle East. The main demand of demonstrators was social justice, which suggests that income inequality might be one of the factors responsible for the uprising. Yet, a number of studies claim that the region has one of the lowest levels of inequality in the world (Hlasny and Verme, 2015; Bibi and Nabli, 2010), and that the Gini index of the region has decreased over time (UNDP, 2011). Clearly, these findings do not match the feeling of dissatisfaction of demonstrators. The break of the Arab spring led the researchers to question this paradox, which became known as "the Enigma of Inequality" (UNDP, 2011) or the "Arab Inequality Puzzle" (Ianchovichina, Mottaghi, and Devarajan, 2015). In this issue brief, and based on the latest available data, we argue that there is in fact a high level of inequality in the region, due to large income differences between countries and a severe concentration of income at the top of the distribution. We obtain our estimates by combining surveys, tax data and national accounts in a transparent and systematic manner (Moshrif, 2020; Alvaredo, Assouad, and Piketty, 2017). However, given the limited amount of data (surveys, tax data and national accounts) available in the region, some of these estimates should be considered fragile and subject to revision.

Income inequality in the Middle East is among the highest worldwide, with 56% of national income accruing to the top 10% income earners in 2019, and the top 1% earning almost twice the share of the bottom 50%, 23% compared to 12%.

As shown in Figure 1, Middle East is an extremely unequal region. Inequality levels remain persistently high with top 10% income share exceeding 56% in 2019. Compared to other world regions, this value is close to that of Africa (55%), and larger than that of Asia (49%), the United States (47%) and Western Europe (34%).

Gulf countries are the most unequal in the region

Inequality has been consistently high in the Middle East over the period 1990-2019. The top 10% share of national income varies between 60% and 56% and the bottom 50% share between 10% and 12%. The income is especially concentrated among the top 1% income earners, who own 23% of total income in 2019, almost twice as high as the share earned by the bottom 50%.

The 1990-2019 period has been a period of rapid population growth for the Middle East: total population grew by 80%, from less than 240 million in 1990 to over 430 million in 2019. Average income has been growing at a slower pace. Using purchasing power parity (expressed in 2019 euros), per adult national income rose from 19 651 euros in 1990 to 23 091 euros in 2019, a cumulative growth of 18%.

It is essential to stress the differences in average income and population between Middle East countries. The region can be divided between two groups of countries: The oil-rich gulf countries (UAE, Kuwait, Oman, Bahrain, Saudi Arabia and Qatar); and the much more populous non-gulf countries. This distinction is largely the result of the geography of oil ownership, the transformation of oil revenues to permanent financial endowments and the share of population.

As shown in figure 2, Gulf countries are the most unequal in the region. With high oil revenues, highly subsidized economies and nationals more privileged than foreign workers, the top 10% income earners hold around 54% of the national income, and their share has briefly increased over the 1990-2019 period. The non-gulf countries are slightly less unequal. In 1990, the top 10% income share

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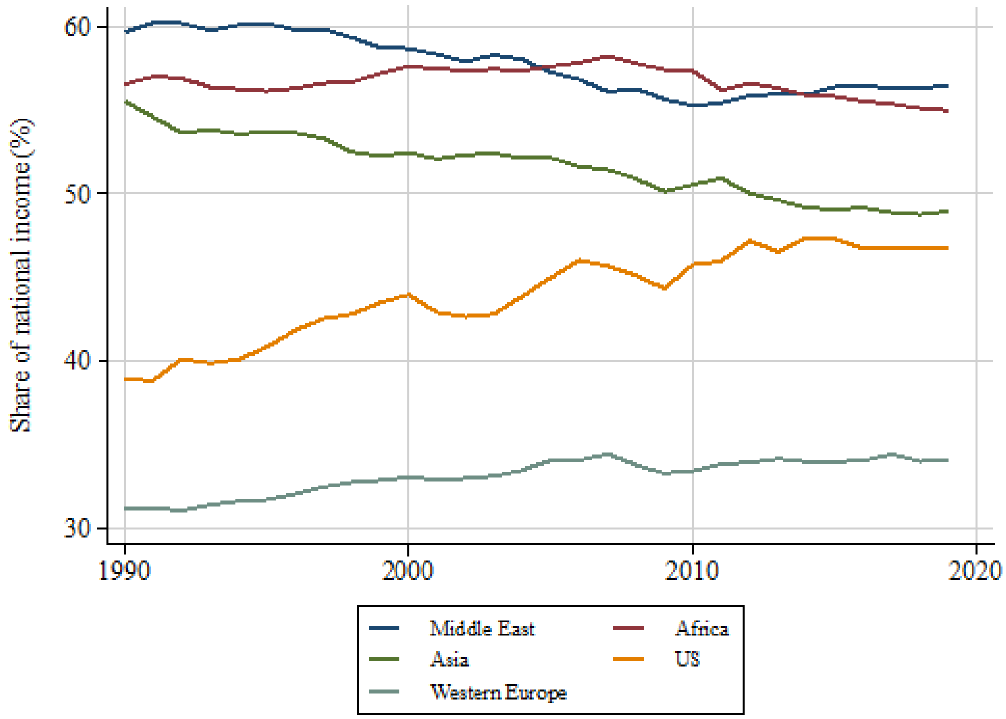
Figure 1. Top 10% income share in the Middle East and other regions, 1990-2019



Source: Source: World Inequality Database (https://wid.world).

stood high at 51%, 3% less than Gulf countries. It has decreased since 2000, to 48% in 2013, but it rose again to over 49% in 2019.

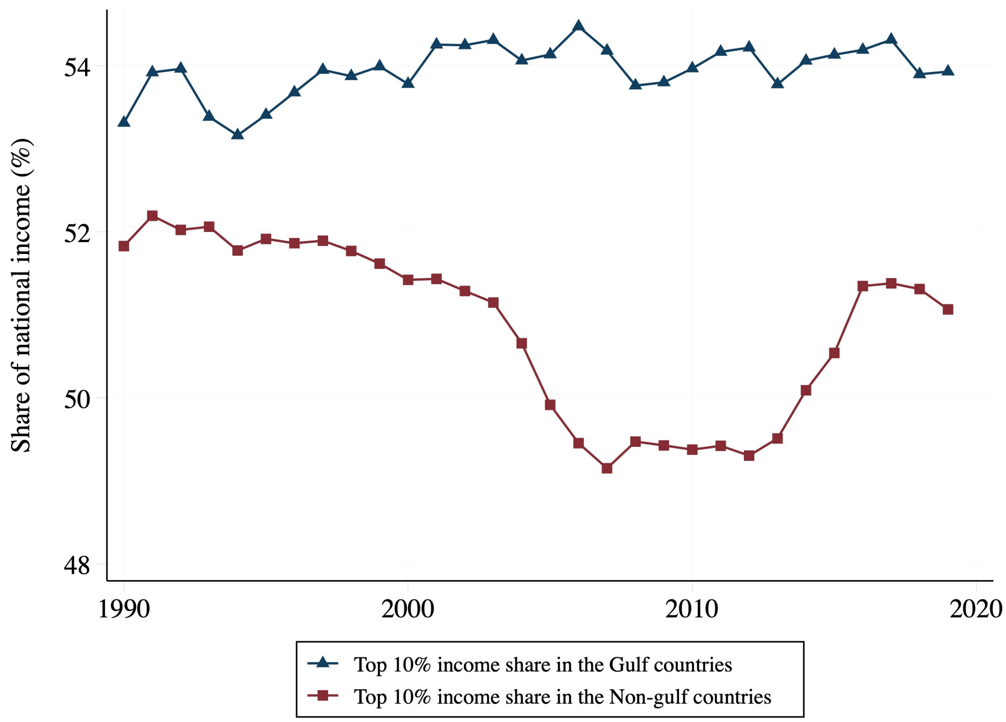
This phenomenon is related to inequality dynamics in both Turkey and Egypt. Both are highly populous countries with 45% share of the total population in the region. The rise in top 10% share since 2010, is related to the decrease in the share of bottom 50%. For the recent years, the Egyptian economy has gone through a number of policy changes (cut subsidies, flotation of Egyptian pound), that led to a decrease of income level for the bottom 50% and Middle 40%, hence, the rise of inequality (Said, Galal, and Sami, 2019).

The inequality level of Gulf countries reveals important aspects of their political economy. Low-paid foreign workers living in difficult conditions, do not share the same privileges as national citizens. Living in a highly subsidized economy, with no income tax and free healthcare and education, national citizens tend to restrain naturalization against migrants, and control their stay by imposing the "sponsorship system" or "kafala system". This creates a polarized society with two groups which are not legally, socially and economically equals.

Between-country inequality is decreasing

If we decompose between-country and within-country inequality in the Middle-East, it is apparent that the evolution of income inequality in the Middle East is driven by the dynamics of between-country inequality. As shown in figure 3, the overall top 10% income share has been decreasing since 1990. This is driven by the decrease in between-country inequality. Assuming perfect equality within countries, the income share accruing to the top 10% would have dropped from 49% in

Figure 2. Gulf and Non-gulf countries: Top 10% income share, 1990-2019



Source: Source: World Inequality Database (https://wid.world); See (Moshrif, 2020).

1991 to 27% in 2019.

The fall in the income gap between the gulf and non-gulf countries has been driven by the massive inflow of migrant workers into gulf countries during the last two decades, which has led to a reduction of per adult national income as the share of foreign population increased. In the meantime, non-gulf countries experienced relatively fast GDP growth.

Within-country inequality remains persistently high

Assuming perfect equality between countries in the Middle East, the within-country inequality would have remained constant for the period 1990-2019, with the top 10% income share varying around 50%. Extreme inequality at the regional level were not only driven by large inequality between rich and poor countries, it is high because most countries in the region are internally unequal.

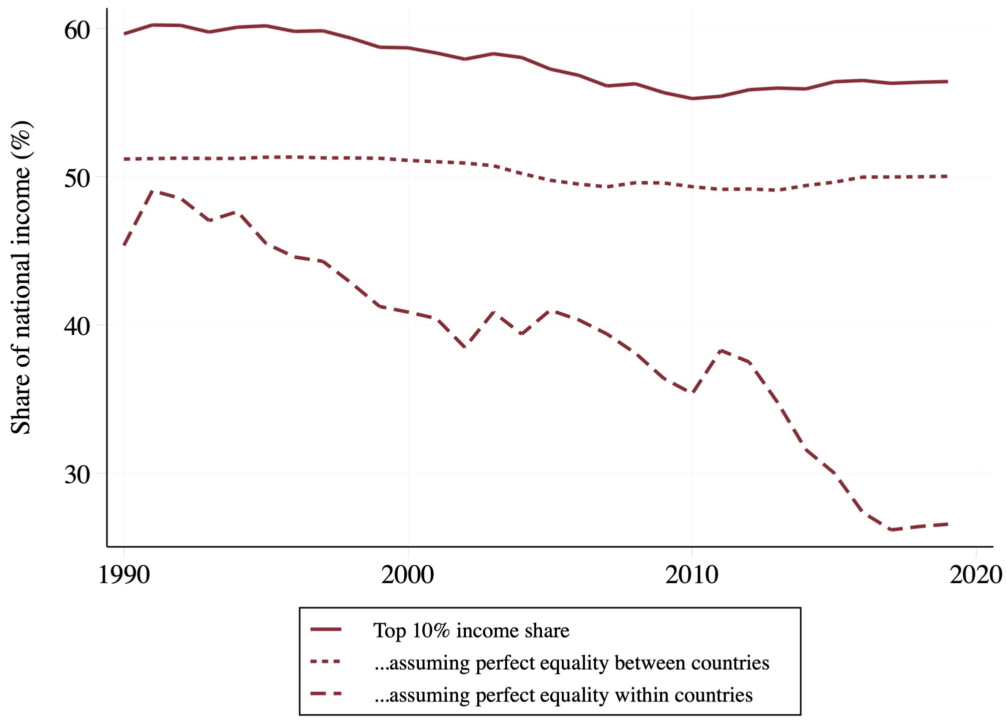
Note that, due to data limitations, within-inequality is hard to estimate. Lack of access to frequent and high-quality survey data and tax data prevents a precise analysis of the within-country inequality, especially over short time span.

Better data and more transparency are highly needed in the Middle East

The decrease in top 10% income share over the 1990-2019 period is driven by the decrease of both between-country inequality. However, inequality remains extreme within each country, and it accounts for the persistence of inequality at the regional level. It is assumed that the within-inequality should be trending upwards but due to data limitations, it is under-estimated.

Access to better quality data might lead us to revise

Figure 3. Top 10% income share in the Middle East, 1990-2019: between versus within country inequality



Source: Source: World Inequality Database (https://wid.world); See (Moshrif, 2020).

some of these conclusions. Rising within-country inequality is found in other countries across the world, e.g. in the united states, Europe, Latin America, India, China, Russia, South Africa, with different magnitude. Given the available data sources, it is not possible to draw precise conclusions about within-country inequality in the Middle East. We need more transparency on income and wealth, and better access to such data, to draw more accurate conclusions about inequality levels.

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The World Inequality Lab

The World Inequality Lab aims to promote research on global inequality dynamics. Its core mission is to maintain and expand the World Inequality Database. It also produces inequality reports and working papers addressing substantive and methodological issues. The Lab regroups about twenty research fellows, research assistants and project officers based at the Paris School of Economics. It is supervised by an executive committee composed of 5 co-directors. The World Inequality Lab works in close coordination with the large international network (over one hundred researchers covering nearly seventy countries) contributing to the database.

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