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POOR GULF: Growing Inequality, no Data*

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Marx didn't like it and recently The Economist ran a special issue on it: Inequality is inseparable from capitalism, yet it can hurt it at the same time. Even those start to reckon it who are inclined to justify inequality as a result of differences in skills, work ethics and risk taking. From limited access to education and reduced social mobility to predatory lending to make up for slack demand - inequality has left a wasteland of missed opportunities and bad subprime debt in its wake. While inequality between countries has diminished with the rise of emerging markets, inequality within them has mostly risen since the 1980s.

This is also true for the Arab world. Its income inequality has been less than in Latin America and Africa but comparable to Asian levels. At the same time its long-term growth has lagged behind many other countries in the developing world. A focus on rent extraction, educational shortcomings, gender discrimination and entrenched authoritarian structures have been blamed for this record.

Economic hardship of households can contribute to political instability as the Arab Spring has shown. On the surface, Egypt was a poster child of economic success before Mubarak's downfall. The Ease of Doing Business Index of the World Bank named Egypt as the world's leading reformer in 2008. In 2010, the country had been among its top ten reformers for a record four consecutive years. Growth rates on a macro level were appealing, yet economic liberalization only benefitted a small class of cronies. The much promised trickle down effect was a rain that never came. Egypt developed, but Egyptians did not. The problem remains under the new Morsi government and can also be observed in post-revolutionary Tunisia: As long there is not a modicum of economic change, political stability will remain elusive.

The most common measure for income inequality is the Gini Co-efficient. It measures the distribution of income in a range from 0 to 1, with 0 describing complete equality and 1 a situation were all the income would go to just one person. In Egypt it stands at 0.32, in Yemen at 0.38, in Brazil at 0.55, in Nigeria at 0.49, in the USA at 0.41, in China at 0.43, in India at 0.33 and in Sweden at 0.25. The average for all Arab League countries, Iran, and Turkey is 0.37 and slightly below the global average for Low and Middle Income Countries,

*A previous version of this opinion piece was published as a Gulf Research Center Analysis, 11 April 2013 which stands at 0.40. Yet the UNDP has suspected that the Middle Eastern data is underreported and the Arab Human Development Report has pointed out that the increase in wealth inequality over the last decade has been even more pronounced than the growth in income inequality.

Statistics about inequality are mostly absent in the Gulf. If one takes the Human Development Indicators of the United Nations and looks up the table for the Gini Co-efficient, the Gulf countries show a gaping blank with the exception of Qatar (0.41). This echoes the general lack of reliable data. The IMF has questioned official Gulf inflation figures in the past and the UAE doubled its population estimate from 4.1 million in 2005 to 8.26 million in 2010 to adjust for data flaws and migrant inflows. Just to mention two examples that illustrate the degree of uncertainty.

Gulf officialdom has neither the means nor the will to get a clear picture of inequality. Statistical units are understaffed and survey work would need to be conducted in a more regular fashion. In the absence of a tax system the bureaucratic reach into society is limited and no incentive exists to change this state of affairs. Expat workers in the private sector are among the most affected by inequality, but lack voice and are not allowed to form unions. They constitute substantial minorities in Oman, Saudi Arabia, and Bahrain and the majority in the other GCC countries. They are indispensable for labor markets, yet they are perceived as a security risk.

This might explain some of the reluctance to raise the issue of inequality, but there are also large numbers of disadvantaged nationals, particularly in Oman, Saudi Arabia, and Bahrain. Within the UAE electricity blackouts, fuel shortages, and decaying infrastructure in the Northern emirates exist side by side with flashy real estate in more fortunate Abu Dhabi and Dubai. Governments are concerned about the wealth gap and are anxious to address grievances of their national population, whereas they hesitate to do the same in the case of migrant workers as long as wages are paid and basic working conditions are met.

In the absence of a tax system, the options for redistributive policies and investment incentives are limited. The various subsidies and handouts are an inefficient way to address the issue. They would be better replaced by targeted spending on the poor and young while breaking up protected economic niches of vested interests. Quotas for workforce nationalization are hardly a solution either if they do not go hand in hand with inclusive growth policies that increase transparency and empower new economic activity beyond mere rent extraction and allocation. Without qualification measures, such quotas might end up just being a hidden tax on the private sector so that it takes over part of the burden of idle employment that is widespread in the public sector.

Predictions of the imminent demise of Gulf monarchies by scholars of western constitutionalism have been usually vastly exaggerated. The mixture of rent distribution, traditional allegiances, and informal avenues for participation has been sufficiently attractive to generate stability. Yet, in the long run, this might change if Gulf countries do not replace patrimonial largesse with institution building and find better ways to tackle their version of a global inequality crisis.

Saudi billionaire Prince Alwaleed recently broke off cooperation with the Forbes List of the world's richest people as he blamed them for underestimating his wealth and ranking. There is undoubtedly a taste for quantifications in the Gulf; it just needs to be applied to more pressing issues than the sizes of wallets and heights of towers.