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Charles H. Dyson School of Applied Economics and Management
Cornell University, Ithaca, New York 14853-7801 USA

ECONOMIC INEQUALITY AND ECONOMIC DEVELOPMENT: Lessons and Implications of Global Experiences for the Arab World

Ravi Kanbur

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By

Ravi Kanbur*

www.kanbur.dyson.cornell.edu

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Contents

Abstract

This paper starts from the premise that economic inequality will be central to Arab policy makers concerns as they devise economic development strategies for the future. In this, the lessons from global experience may be useful in drawing implications for the Arab world. With this in mind, the core of this paper goes through seven case studies from around the world in the last fifty years, providing brief sketches of trends and patterns in the relationship between economic inequality and economic development. The central lesson to be learnt from these experiences is that initial structural inequalities matter in determining the equity of the growth path. Successful countries have addressed these structural inequalities through a range of policies. The paper then draws specific implications of the global experience for Arab policy makers, highlighting in particular: (i) focus on the distributional consequences of privatization, (ii) expansion of targeted CCTs and public works programs in place of generalized subsidies and (iii) a systematic approach to reducing gender inequalities.

* Cornell University: T.H. Lee Professor of World Affairs, International Professor of Applied Economics and Management, and Professor of Economics. Paper prepared for the Second Annual Conference for the Social Sciences and Humanities, Arab Center for Research and Policy Studies, Doha, 2013.

1. Introduction

After some decades of languishing in the shadow of economic growth as a policy priority, economic inequality has been rising as a concern in public perception and policy makers' focus. This is not to say the economic growth has been cast aside—it would be unusual and inappropriate for that to be the case. However, the world over, inequality in its many dimensions has taken centre stage in the development and policy discourse.
The 1% versus 99% distinction made by the Occupy Wall Street protesters has had considerable resonance in the US in an era of sharply rising income and wealth inequality. The protests spread from Wall Street to many advanced and developing countries, reflecting global concerns. In Asia, a recent Asian Development Bank Report documented that four fifths of the population lived in countries where income inequality had increased in the last two decades. In Russia, vast wealth inequality was created in the 1990s by the botched and corrupt privatization program—the infamous "oligarchs" are only the tip of this inequality iceberg. In South Africa, income and wealth inequality remains high two decades after the fall of apartheid. Only in Latin America has inequality been falling as a broad regional trend, and this is remarked upon because of how unusual it is—relative to trends elsewhere in the world and relative to Latin America's own history of globally high inequalities. Latin American policy makers seem to have grasped the nettle of inequality as a policy priority.

And, then, of course, there is the Arab Spring. In the popular imagination and in press commentary it was inequalities in different dimensions—wealth and income inequality, unemployment, unequal access to education and employment—which contributed to the general discontent and political transformation to which it gives rise. The precise role of inequality is of course disputed in the emerging analytical literature on the origins of the Arab Spring, with some analysts emphasizing a range of alternative explanations in the political and social sphere. However, whatever the role of inequality in the genesis of the Arab Spring, the global context means that economic inequality is bound to be on the agenda for Arab countries as they debate and discuss policies for future economic development. The global experience with economic inequality will be relevant to this discourse.

The object of this paper is not to analyze the role of inequality as a causal factor in the Arab Spring. Rather, the focus is on the future, and the objective is to present a range of global experiences of economic inequality and development, to feed in to the post Arab Spring policy discussions in the Middle East and North Africa. Section 2 of the paper starts with brief some preliminaries on the concept and measurement of inequality. Section 3 presents an account of seven case studies which have been and are influential in the global policy discourse: East Asia in the 1960s and 1970s, East Europe in the 1990s, China post 1978, India post 1991, South Africa post 1994, Ghana in the last two decades, and Latin America in the last decade and a half. Section 4 draws together the central lessons of the case studies and discusses their possible implications for policy towards inequality in the Arab world. Section 5 concludes.

2. Some Preliminaries

This is not the occasion to review the vast literature on conceptualization and measurement of economic inequality. Contributors to the literature include Economics Nobel prize winners Amartya Sen[1], James Mirrlees[2], and Joseph Stiglitz[3]. Further, discussions on economic inequality are rarely far removed from the philosophical literature, with contributors like John Rawls[4], Robert Nozick[5], and Ronald Dworkin[6]. However, it will nevertheless be useful to have a statement of some preliminaries on economic inequality to frame the discussion, albeit that it will be brief and selective.

It is useful to start any discussion of inequality by asking two questions—inequality of what and inequality between whom? As a practical matter the standard cross-country comparable measures of inequality have two features—they measure inequality of monetary income (or of monetary value of consumption), and they measure inequality as between individuals in an economy. Further, as a practical matter, the data sources are national level income and expenditure household surveys (or, for some countries, labor-force surveys). Since household surveys collect income and expenditure data at the household level, and inequality is calculated at the individual level, the way this gap is bridged is by making the assumption that all individuals in the household have the same level of consumption. Thus, in effect, inequality within households, in particular gender inequality within households, is suppressed in standard measurement of inequality, and actual inequality is understated. There are of course a whole host of other issues that arise with data sources and their use in calculating national level income inequality—imputing monetary values for non-market items of consumption, adjusting nominal values of income and expenditure for price variations, etc. All of these issues have to be borne in mind as we interpret global trends that are derived from such data.[7]

Given a national distribution of income (or consumption), there are three features of such a distribution that are of policy interest—average income, which is the mean of the distribution (the rate of change of which is course the economic growth rate); inequality, which is some measure of the spread in the distribution; and poverty, which is related to the weight in the lower tail of the distribution below some critical level, the "poverty line." These three features are of course interrelated. In particular, holding inequality constant a rise (fall) in average income leads to a fall (rise) in poverty. Holding the average income constant a rise (fall) in inequality leads to a rise (fall) in poverty. Thus if average income rises and inequality falls, poverty reduction will be doubly blessed. On the other hand if the average falls and inequality rises poverty will be doubly damned. If, however, the average rises and inequality rises as well then the impact on poverty is ambiguous, depending on the relative strengths of the two forces. As we will see in the next section, these seemingly technical scenarios are in fact seen in the actual experiences of countries around the world,

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[1] Sen (1973, 1992)
[2] Mirrlees (1971)
[3] Stiglitz (2012)
[4] Rawls (1971)
[5] Nozick (1977)
[6] Dworkin (2002)
[7] Kanbur (2010)

and provide a framework in which we can understand and interpret seemingly disparate outcomes on economic inequality and economic development.[8]

Up to now we have left the specific measure of inequality unspecified. But there is a range of such measures in the literature, each emphasizing different aspects of inequality. One class of measures compares the incomes at the very top of the distribution to income sat the very bottom. So, for example, we could compare average income of the top 25% of income earners to the bottom 25% (the inter-quartile ratio). But these leave out the middle of the distribution, and most standard measures take in the spread throughout the distribution — these measures include for example the Gini coefficient and the Theil measures of inequality.

Up to now the question “inequality between whom?” has been answered as “between individuals”. In this conception, which is the basis for all standard cross-national comparable measurement of inequality, the only information relevant about an individual is income (or consumption). Other characteristics of the individual—gender, ethnicity, religion, region, etc.—do not matter in measuring inequality. But, of course, these factors do indeed have socio-political salience, and a strong strand of the literature is devoted to methods of incorporating these dimensions. The standard approach to linking individual level inequality to inequality related to salient groups in society is to decompose individual based inequality into a “within-group” component and a “between-group” inequality. This is closely related to the statistical methods of “analysis of variance”. The between-group component is a measure of inequality across groups—it is the inequality that would remain if every member of a group (an ethnic group, say) had the income of the average of that group. Evolution of these components gives more information on the structure of inequality than the standard overall national level measures can do.[9]

As noted, the standard answer to “inequality of what?” is “income” (or monetary value of consumption) as measured through household income and expenditure surveys. But other dimensions of well being could equally well be considered—education, health, etc. are human development dimensions that have also been considered in the literature, although not to the same extent as income. But achievements in income, education, health, are all “outcome” measures. A major strand of the analytical literature, taking its cue from elements of the popular discourse, insists that the object of policy interest should not be inequality of outcome but rather inequality of “opportunity.”[10] This approach distinguishes between “circumstance” and “effort” in determining outcomes for an individual.

Circumstance is that over which an individual has no control—for example, ethnicity, gender, parental characteristics. Effort is that over which the individual can exercise some control, for example, time spent studying, or labor supply decisions. This literature then tries to allocate overall inequality into that accounted for by circumstance and that accounted for by effort, it being argued that it is only the former that is inequality of opportunity, and a legitimate target for policy action. However, there exist a number of

[8] Kanbur (2012)
[9] Kanbur (2006)
[10] Roemer (1998), Bourguignon, Ferreira andWalton (2007)

critiques of the conceptualization and the application of the concept, including the difficulties of delineating circumstance from effort in reality.

Why does inequality matter to economic development? The literature identifies at least three reasons. First, concern about inequality may be part of the deep value judgments of a society, one of the standards by which it judges itself and its progress. Here inequality may be of outcomes or opportunity, and it may be inequality between individuals or between salient groups—this would depend on further specification of the value judgments used to assess progress. Second, even if only income poverty matters as a value judgment, the translation of growth into poverty reduction depends on how unequal that growth is. The greater the inequality, the lower will be the poverty reduction for any given growth rate. In Asia, for example, it has been estimated that if over the past two decades growth had happened without increase in inequality, 240 million more people would have been lifted out of poverty.[11] Thirdly, the literature identifies high inequality as itself being detrimental to growth, through a number of channels.[12] Thus, even if inequality is not of direct concern and only growth matters, inequality should concern policy makers for instrumental reasons. These are some of the key conceptual and measurement issues that we will have to bear in mind as we discuss global experience in economic inequality and economic development. The themes highlighted here will appear in the discussion of actual trends and patterns, and will also frame the lessons we draw from the global patterns of inequality change.

3. Global Experiences

Based on the conceptual aspects of inequality measurement laid out briefly in the previous section, in this section I will provide thumbnail sketches of 7 case studies of inequality change from around the world. The treatment will have to be brief given the space constraints. The idea is to set out the diversity but also the commonalities in global experience in the evolution of inequality. The descriptions in this section will provide the basis for drawing lessons and implications for the Arab world in the years to come.
The first case study is from East Asia, specifically the economies of South Korea and Taiwan in the 1960s and 1970s. This experience has been studied extensively, and much has been written about the initial conditions in these countries as they began their growth process in the 1950s.[13] Both countries entered the period with relatively equal land distribution, thanks to the land reforms imposed by the occupying U.S. forces after the Second World War which saw the defeat of the colonial power Japan. At the same time, policies followed by the two countries after the war led to almost universal achievement of basic education. In particular, it should be noted that the spread was universal across the genders. With these initial conditions of relative equality in land and in human capital, both countries embarked on a labor intensive export oriented growth strategy—suited to the global economy of the time. The interaction between the export oriented strategy and basic structural equality led to what has been termed the East Asian "Growth with Equity Miracle".

[11] Asian Development Bank (2012)
[12] Berg and Ostry (2011)
[13] Adelman and Robinson (1978), World Bank (1993)

This was a case, then, where average incomes grew and inequality declined. As discussed in the previous section, the combine defect of this would be a powerful effect on poverty—with both forces pulling towards poverty reduction. The policy implication of this is not of course that a county should first have itself colonized by Japan and then have Japan lose a war the America, and then be occupied by forces which, for their own political reasons of confiscating Japanese landlords, instituted an equalizing land reform! If anything, it confirms how difficult and how unique an event comprehensive land reform can be. Rather, what the experience of East Asia in the 1960s and 1970s tells us is that structural inequalities in initial conditions matters for the equity of the growth path.

The second case study is that of Russia and former Soviet satellites in Eastern Europe and Central Asia in the 1990s, in the decade after the fall of the Berlin Wall. These countries were advised to, and decided to, integrate rapidly into the world economy, to develop private markets quickly, and to allocate previously state owned wealth to into private hands as soon as possible. All this was done without due attention to first developing the legal and institutional underpinnings of a market economy and without allowing for sufficient time for factor markets and people to adjust to the new realities.[14]

Privatization was a case in point.[15] Transition to a market economy self evidently required transfer of assets previously held by the state to the private sector. But to whom were they to be transferred? At what price and under what conditions? A conjunction of particular political forces in Russia, combined with an ideology which asserted that privatization of any sort was better than no privatization, and that it had to be done rapidly, led to the nation's wealth being concentrated in very few hands—including the "oligarchs" who became central to Russian economy and polity.

What we got in Russia, and in some other Eastern European transition economies, was thus the opposite of the equitable initial conditions created in East Asia as the result of the imposed land reform. Rather, what we got was a hugely unequal asset distribution as the result of the imposed privatization. This combined with the ideologically driven and mismanaged integration into the world economy at an inappropriate pace and on inappropriate terms, led to a decade of falling average incomes and rising inequality—poverty was thus doubly damned and rose significantly. Other indicators of wellbeing, such as health and life expectancy, also worsened considerably. While there were country specific variations, this pattern was seen in many transition economies of Eastern and Central Europe.[16]

My third case study is economic inequality in the development of China since the start of its reform process in 1978. The broad outlines of the policies and outcomes over the three and a half decades since then are reasonably well known. It is known that inequality now is much higher than it was in 1978. Of course Chinese growth has been spectacular. So this is a case where average income has risen as has inequality. There are two forces pulling in opposite directions on poverty. The growth effect has dominated and China has had a

[14] Stiglitz (2003)
[15] Black, Kraakman and Tarassova (2000)
[16] Milanovic (1998), Mitra and Yemtsov (2006)

spectacular poverty reduction performance. But if the growth could have been achieved without a rise in inequality, poverty reduction would have been even higher.[17] However, the detailed patterns of inequality change in China in these last thirty years are interesting and informative, especially if we focus on the regional dimension of inequality. For example, it is generally not fully appreciated that the first decade or so of Chinese development after the start of the reform process was one where regional inequality actually fell.[18] This was because the focus of attention was on agriculture. Although land was, and still is, owned by the state, through the "household responsibility system" farm households were allowed to keep their output. This incentivized production and output and incomes rose in rural areas, narrowing the rural-urban gap. In the second phase of Chinese reform, there was opening up to the rest of the world. This led to dramatically higher growth rates, but to rapidly rising inequality as well, especially between urban centers in the well endowed and well positioned coastal provinces and the traditionally poorer inland provinces.[19]

It can be argued that we are still in this second phase of post 1978 Chinese development, with inequality rising. However, about a decade ago Chinese policy makers began to be increasingly concerned about rising inequality. This was reflected in reorientation of policy captured in official objectives such as "harmonious development." The concrete manifestation of this was the start of major investment in infrastructure in the poorer provinces, and a number of other initiatives in the area of education, health and social protection. Some analysts are beginning to see the impact of these policies, and of the general labor tightening in rural and inland areas as the result of migration to the prosperous high growth urban areas in the coastal provinces.[20]

The fourth case study is the other giant of Asia and the world in terms of population, India. As is well known by now, a major move towards reforms started in 1991 in the face of an impending crisis of reserves. The reforms consisted of removal of controls and licensing targeted to the private sector, including, importantly, restrictions on international trade. The growth performance in the subsequent two decades has been nothing short of spectacular compared to the outcomes in the decades before 1991. This was the period when the economy seems to have broken out of what was sarcastically dubbed "the Hindu rate of growth" of 1 % per capita. With real growth averaging between 5% and 8% for much of this period, and with population growth rates also declining, the last two decades have seen India cross he ranks from a Low Income Country to the status of a Middle Income Country, its per capita having crossed the $1,000 per capita mark in the latter part of the first decade of the 2000s.[21]

How has this higher income been distributed? The answer is subject to much debate and controversy, not least because of data issues with the national household survey of the late 1990s, but the overall picture seems fairly clear. Indian inequality has increased, but

[17] Asian Development Bank (2012)
[18] Kanbur and Zhang (2005)
[19] Kanbur and Zhang (2005)
[20] Herd (2010), Fan, Kanbur and Zhang (2011)
[21] Panagariya (2008)

poverty has declined.[22] So once again, like China, the growth effect has dominated the inequality increasing effect, and poverty has declined. However, the poverty decline would have been far greater had the inequality not risen.[23]

The structural factors behind rising Indian inequality are similar to those in China. Pre-existing inequalities, in natural location, infrastructure, education and discrimination have led to an unequal distribution of the fruits of growth. The coastal states and those with better governance and infrastructure have grown faster than the inland ones. Regional inequalities have widened significantly.[24] The indigenous populations of several resource rich states have been left behind even as these resources have fuelled the Indian boom and rapid increases in income for some. One consequence of this is growing insecurity in these states as an insurgency has taken hold.[25]

The government is well aware of the rising inequality in India during the growth period. Indeed, Indian elections have been fought on theme of what the growth means for "the common man." The government has introduced a number of programs to address the distribution of growth, including perhaps most famously the "National Rural Employment Guarantee Act."[26] The results of this are still being assessed, but the focus on employment in rural areas makes clear that the government is trying to address the structural inequalities in Indian society. Further, as is well understood in the literature, such public works schemes have the property of being "self targeted", so that the need for them diminishes as the situation of those at the bottom of the distribution improves.[27]

For the fifth case study I move continents, to South Africa. The release of Nelson Mandela from prison in 1990 led to a political process culminating in the first democratically elected government in 1994. The year 2014 will see the twentieth anniversary of the fall of Apartheid. How has inequality in South Africa fared in these last twenty years? The Apartheid regime left South Africa with major structural inequalities, especially between the black and the white population. The two populations were segregated residentially, with the consequence that the black population often had long and difficult commutes to work. Furthermore, investment in education, health, housing, sanitation and infrastructure was much worse in black areas than in white areas. Not surprisingly, level of educational and health achievements were much worse among the black population.[28]

A major plank of the new government's policies was to address the inequalities in basic needs. Significant investments were undertaken in the black areas. The results over the last two decades are that these gaps between the black and white populations, while still large, have indeed been narrowed.[29] However, income inequalities remain high in South Africa,

[22] Dreze and Deaton (2002), Deaton and Kozel (2005)
[23] Asian Development Bank (2012)
[24] Gajwani, Kanbur and Zhang (2007)
[25] Morrison (2012)
[26] Basu, Chau and Kanbur (2007)
[27] Ravallion (1991)
[28] South Africa Presidency (2012)
[29] South Africa Presidency (2012)

and unemployment is very high, especially in the black population.[30] What explains this outcome, despite narrowing in the structural inequalities from the pre-Apartheid era? There is a lively debate on this topic, with a focus on the government's policy of market oriented development which integrates South Africa further into the world economy. Proponents of a more market oriented approach have argued that this is the best path for South Africa in a globalizing world. Others who support the strategy have laid the blame for high unemployment on union-driven high wages and other employment conditions. Opponents of the strategy have said that South Africa's comparative advantage is in natural resources and a growth strategy based on this is bound to be disequalizing. They have argued, rather, for changing this comparative advantage by supporting industrialization.[31]

However, one aspect of structural inequality that is important is the disconnect between residential areas and areas of work. This aspect of pre-Apartheid South Africa still persists, and the road and transportation patterns continue to reflect it. If this structural feature is not addressed—through a combination of investment in infrastructure and employment creation in black areas, the growth path being followed is likely to be disequalizing.[32]

My sixth case study is another country from Africa—Ghana in West Africa. Over the last fifteen years Ghana has had a remarkable record of growth and poverty reduction, so much so that it is on target to meet the Millennium Development Goal on income poverty, and has crossed the per capita income threshold into Middle Income Country status. The discovery and now accelerated production of oil will also fuel growth in the years to come.[33] However, inequality in Ghana has been rising—the fruits of growth have not been equally shared. This disparity between top incomes and bottom incomes has a strong regional dimension in Ghana, which has a historical north-south divide.[34] While poverty has fallen in all regions, it has fallen less fast in the north than in the south. The south of the country is in the forest agro ecological zone and grows the main export crop, cocoa. The north of the country is in the savannah zone and agriculture is dominated by root crops which are not traded internationally.

A growth strategy based on integration into the world economy has naturally meant the exacerbation of the north-south divide which is based on agro-ecology but also on infrastructure differentials which date from colonial times. However, Ghanaian policy makers are well aware of this divide and have taken and are taking steps to address it through allocation of public spending for investment in roads, irrigation, agricultural extension, education and health.[35] Maintaining the north-south balance is a key dimension of Ghanaian political economy, and is all the more important since neighboring Cote D'Ivoire succumbed to a long and damaging civil war in which the north-south divide was an important axis of rallying support for the two sides.

[30] South Africa Presidency (2012)
[31] Roberts and Walser (2011), COSATU (2010).
[32] Kanbur (2011)
[33] Aryeetey and Kanbur (2008), African Economic Outlook: Ghana (2012).
[34] Aryeetey and Kanbur (2008)
[35] Aryeetey and Kanbur (2008)

The final case study is in fact of several countries—the major countries in Latin America. The region has long had the (deserved) reputation of being one of high and rising inequality. In the 1960s and 1970s the declining inequality in East Asia was held up as a mirror to Latin America to highlight the contrast. But something changed in the late 1990s and 2000s. As has been well documented by now, in the first decade of the new millennium, inequality fell in 13 Latin America countries, including big countries like Mexico, Brazil and Argentina.[36] During this period these countries had growth as well—so that they have a claim to the "growth with equity" label bestowed on Korea and Taiwan in the 1960s and 1970s. With both growth and falling inequality, poverty reduction was doubly blessed. An indication of the important of inequality reduction is given by the following calculation for Brazil. Had inequality not fallen, to achieve the same amount of poverty reduction would have required a growth rate 4 percentage points than the actual growth rate. [37]

How did the Latin American turnaround happen? Detailed analysis shows that this was because of a combination of greater progressive transfers from the government to the bottom end of the distribution, and also because of significant shifts in the distribution of education and the returns to education. The role of vastly expanded conditional cash transfers (CCTs) focused on education has been strongly emphasized by analysts.[38] As is well known, these programs, targeted to the lower end of the income distribution, incentivize the acquisition of human capital by providing cash transfers to those households who keep their children in school. So they do double duty in managing inequality—they make transfers to poor households and then address the structural inequality in human capital which is a strong feature of Latin America, and indeed all other parts of the world. Further, these transfers are to the mother in the household, thereby addressing the deep structural inequality across gender in societies.

These seven case studies are of course particular to the specific countries and the specific time periods they refer to. However, the commonalities, and the differences, may serve to provide a broad framework for thinking about policy towards inequality. The next section takes up this story, with special reference to the Arab world.

[36] Lustig, Lopez-Calva and Ortiz-Juarez (2011)
[37] Barros, de Carvalho, Franco and Mendoca (2010).
[38] Fiszbein and Schady (2009).

4. Lessons and Implications

An immediate question that is posed when the words "Inequality" and "Arab Spring" are put together is on the role of inequality as a causal factor in the genesis and outcomes of the Arab Spring. It seems an easy connection to make, but perhaps too easy. In fact, measures of inequality of the sort discussed in the previous two sections are relatively low for the Arab world compared to other regions, and had been relatively stable or even declining in many countries in the decade prior to the Arab Spring. Standard poverty measures had also been declining during this period on average.[39] Of course, this could be nothing more than an indictment of what exactly standard measures of inequality tell us about wellbeing. But this would be too harsh a judgment—after all, the standard inequality indices, with all their well known shortcomings, seem to stand us in reasonably good stead in understanding and assessing global experiences as set out in the previous section.

An alternative strand of the post-Arab Spring literature focuses not on economic inequality but on the critique of authoritarian regimes, and the demand for political freedoms. Economic issues appear here as well, for example, privatizations which led to crony capitalism with friends of the regime benefitting, and issues like this can be linked in to dimensions of inequality. However, there are strong arguments that the dominant axis of this discourse is political in nature.[40]

In any event, leaving to one side the debated terrain of how inequality fed into the Arab Spring if at all, there remains the question of how inequality should inform economic policy making in the Arab World in light of global experience of the last 50 years, ranging from the growth with equity experiences of East Asia fifty years ago and Latin America over the last ten years, to the disequalizing growth patterns seen in Asia and Africa in between.

To my mind there are two main lessons from this global experience. First, an economy and a society which starts with deep structural inequalities is likely to find the growth process itself to be disequalizing, even if poverty declines as a result of growth. If this increase in inequality is of concern to policy makers, then there are two key elements of strategy to be followed. In the short term, transfers need to be used to mitigate the rise in inequality. Over the medium term, however, the structural inequalities themselves need to be addressed. This does not mean that the attack on structural inequalities can be postponed. It must begin straight away. However, such inequalities can only be addressed gradually over time, hence the need for a medium term perspective. The ideal combination is if the two elements of the strategy can be made to work together—if the short term transfers can be used at the same time to redress structural inequality. This is the power of the Conditional Cash Transfers (CCTs) approach. Through targeting, the transfers are restricted to those at the lower end of the income distribution. But through the conditioning, they are used to incentivize the accumulation of human capital.

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[39] Ncube and Anyanwu (2012)
[40] Zubaida (2011), Nimeh (2012), Anderson (2013)

The second, related, lesson is that the answer to the question "inequality between whom" matters. It may be that a society is sufficiently socio-culturally homogeneous that the only differences that are important are those between those with different income levels. But many, if not most, societies are also divided along ethnic, religious, caste, regional, gender or other grounds. Managing and mitigating the divides between these groupings is also important in maintaining an economy on a growth path. Distributional measures to address these imbalances may appear inefficient from an economic perspective, but they can be the very foundation of stability and economic success.

As Arab policy makers look ahead to the post Arab Spring world, what are the specific implications for them of the global experience and of general lessons of this experience? I do not think it is possible in the nature of things for the Arab world to eschew integration into the world economy or to not move to an economy with a greater role for the private sector. It is no longer possible, if it ever was possible, to have sustained economic growth and poverty reduction in economy that is autarchic and owned predominantly by the state. The question, rather, is how to manage this integration and transition in a purposive and deliberate manner so as to take the opportunities while managing the risks. The central point is that policy makers must be aware of the consequences of structural inequalities in their societies; they must do their best to reduce them, and must certainly not follow policies which exacerbate them. Within this broad frame, I want to highlight three specific implications which emerge for Arab policy makers.

Arab economies still have a significant ownership by the state of the economy. Overall, there will need to be some shift in this ownership structure towards the private sector, and this has been accepted by policy makers. However, privatizations must be done carefully, to ensure that the assets do not end up in the hands of a small elite. Otherwise a Russia type situation could be entrenched where wealth becomes very unequally distributed (or even more unequally distributed). It is better not to rush privatizations if the institutional framework is not in place. It is better to take the time to set in place transparent mechanisms and, if possible, mechanisms that will lead to a wider distribution of what was formerly public wealth. The privatizations of today will create the structural inequality, or equality, of assets for decades to come. The implications for wealth distribution must be a key criterion for designing privatization mechanisms.[41]

A central issue in Arab economic policy making is the role of generalized subsidies.[42] These subsidies to food and fuel were already large, and they have grown even larger as policy makers have used them to transferring purchasing power to the population at large during the difficult political times of the recent transitions. Their fiscal and financial implications will eventually come home to roost. This is of course a long standing issue in the Middle East and North Africa, and the arguments are by now well understood. [43] The lessons of global experience are that in order to be effective in mitigating inequality, transfers must be (i) targeted to the lower end of the distribution, (ii) self correcting, so that their usage diminishes automatically as the economic situation at the bottom of the

[41] Birdsall and Nellis (2005), Akoum (2012), Shehadi (2002)
[42] Iqbal (2006)
[43] IMF Survey (2012)

distribution improves, and (iii) must incentivize accumulation of human capital in its different dimensions so as to address structural inequality in human capital in the medium term. In the short run it will be difficult to move away from the generalized subsidies that have kept some semblance of peace in the difficult political transitions. But gradually the same outlay can be transferred to better targeted, and self targeted, programs, and to programs where transfers are conditioned on human capital accumulation. Different elements of this strategy have worked in Asia and in Latin America in the last fifteen years.[44]

The third specific implication I would like to highlight is that of inequality between broad groupings in society, as highlighted by the experiences of Ghana and South Africa, and indeed other parts of the world. The salient groups will vary from country to country but one grouping that cuts across all Arab countries, and indeed all countries in the world, is gender.[45] Inequalities across gender have been shown to be detrimental to poverty and to medium term growth. This issue has to be one of the top concerns of Arab policy makers. The twin approaches of (i) gender specific programs, for example for girls' education and health, combined with (ii) gender targeting within standard programs, for example the transfers in CCTs being to the mother, can be brought together to structure a medium term strategy of addressing gender inequality in society and economy.[46]

5. Conclusion

The issue of inequality has come to the fore in the global discourse on economic development. It has also been prominent in the commentary on the Arab Spring. The causal role of inequality in the Arab Spring is contested, and it is not the object of this paper to address or to resolve that debate. Rather, the paper starts from the premise that, whatever its role in the Arab Spring, inequality in the broad sense will be central to Arab Policy makers concerns as they devise economic strategies for the future. In this, the lessons from global experience may be useful in drawing implications for the Arab world. With this in mind, the core of this paper goes through seven case studies from around the world in the last fifty years, providing brief sketches of trends and patterns in the relationship between economic inequality and economic development. The central lesson to be learnt from these experiences is that initial structural inequalities matter in determining the equity of the growth path. Successful countries have addressed these structural inequalities through a range of policies.

The paper then draws specific implications of the global experience for Arab policy makers. There are of course many implications that can be drawn for the Arab world from global experience in light of the conceptual framework set out in this paper. And it goes without saying that any application of framework and global experience has to be sensitive to the specificities of the country in question. But I believe that the three implications highlighted in the paper—(i) focus on the distributional consequences of privatization, (ii) expansion of targeted CCTs and public works programs in place of generalized subsidies

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[44] Silva, Levin and Morgandi (2012)
[45] Ncube and Anyanwu (2012).
[46] World Bank (2012).

and (iii) a systematic approach to reducing gender inequalities—should be at the top of any policy priority list for Arab policy makers concerned with addressing inequality as they develop growth strategies for the future.

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