

# **Inequality Decomposition in the Arab Region: Application to Egypt, Jordan, Palestine, Sudan and Tunisia**

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## **Paper Abstract:**

Inequality and poverty have been increasing in the Arab World and their eradication became a necessity especially after the Arab Spring. Above a certain threshold, inequality undermines good-quality growth and poverty alleviation efforts. Inter-group inequality is particularly worrisome and may yield intergenerational transmission of inequality, poverty traps, polarization, social tension and political instability. Differences in households' human capital, socio-demographic characteristics and geographical location are thought to drive inter-group inequality. This paper evaluates the differentials in household expenditures across rural/urban areas, female/male-headed households, uneducated/educated-headed households and unemployed/employed-headed households, in ten Household Income and Expenditure surveys from five Arab countries: Egypt, Jordan, Palestine, Sudan and Tunisia. Unconditional quantile regressions are used to analyze the differentials across the population distribution and to decompose them by source. Trends over time are also evaluated.

We find that Egypt, Sudan and Tunisia exhibit relatively high expenditure gaps across urban-rural and educated-uneducated groups, while the gaps in Jordan and Palestine, and those across employed-unemployed and male-female headed households are moderate. Between 2008 and 2012 the rural-urban gap and education gap decreased in Egypt while the gender and employment gaps increased especially for the highest population decile. In Jordan, between 2006 and 2010, the rural-urban gap decreased across population quantiles, while the employment gap increased. The education gap increased for the poor but decreased for the rich, while the household-gender gap fell for the poor but increased for households at the median and the top of the distribution. In Palestine, between 2007 and 2011, the rural-urban gap decreased for the rich while it increased for the poor. The gender and employment gaps decreased for both the poor and the rich. However, the education gap increased. In Tunisia, between 2005 and 2010, the rural-urban gap increased both for the rich and the poor. The education gap increased for the poor but decreased for the rich. The employment and gender gaps fell significantly for poor and median-expenditure households but increased slightly for the rich. Overall, education and its return, geographical location, and household's composition play an important role in the drive to reduce the expenditure differentials across social groups. Public policy should focus on investing in

human capital, facilitating equal access to developmental opportunities across regions and improving family composition using better family planning.

Keywords: Economic inequality; Unconditional quantile regression; Blinder-Oaxaca decomposition; Arab region

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