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THE POLITICAL ECONOMY OF INEQUALITY

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Abstract

The extent of inequality in society is determined by the distribution of assets, the rates of returns on different assets, and government policy. All of these things are deeply political and reflect the balance of political power in society and the institutions to which this balance gives rise. I illustrate this perspective on the determination of inequality by a case study of the Sudan and argue that in the Middle East and North African countries it suggests a paradox - inequality is much lower than one might anticipate. I make some conjectures about why this might be based on a comparison with the historical development of inequality in Latin America.

ملخص

من محددات مدى الافتقار إلى المساواة في المجتمع: توزيع الأصول، ومعدلات العائدات على هذه الأصول المختلفة، وكذلك سياسة الحكومة. وجميع هذه الأمور سياسية في المقام الأول وتعكس توازن السلطة السياسية في المجتمع والمؤسسات التي ينشئها ذلك التوازن. وأوضح هذا البعد للافتقار إلى المساواة بدراسة حالة عن السودان. وأزعم أنه في الشرق الأوسط ودول شمال أفريقيا فإن هذا البعد يقدم مفارقة، وهي أن الافتقار إلى المساواة هي أدنى بكثير مما قد يتوقع المرء. ثم أقدم بعض الحالات التي تفسر سبب احتمالية حدوث ذلك، وذلك بالمقارنة بالتطوري التاريخي للافتقار إلى المساواة في أمريكا اللاتينية.

1. Introduction

Inequality is as old as society. Conventionally we date both to the Neolithic Revolution. In fact, prior to the transition to agriculture, there is now clear evidence from the Natufian peoples of modern Palestine of institutionalized inequality as early as 7500BC even though the Natufians were not farmers. Some people, who perhaps for want of a better word archaeologists call elites were buried with rich grave goods, particularly large numbers of dentalium shells from the region of Mount Carmel and modern Haifa, others were not. Archaeologists believe that inequality emerged because these elites controlled trade with the coast. It was both society and inequality that emerged first in the modern Middle East (Bar-Yosef and Meadows, 1995, Mithen, 2004). It even appears to be impossible to talk about society, without talking about inequality. No historical society appears to have eliminated inequality even if this was the stated goal of some. One such group, the Khmer Rouge who ruled Cambodia in the 1970s, did make a spirited attempt but even then party members were fatter than non-party members (Chandler, 1991).

Sources of inequality today are more complex than those which characterized the society of the Natufians, and they are rooted in history and the political and institutional structures of society in more subtle ways. However, even if some inequality is inevitable in society, there are huge and systematic variations in inequality across countries which apparently have large consequences for economic performance, political stability and human welfare. It is therefore important to understand the forces and processes that create inequality and why they vary so much in different parts of the world.

At the root, modern inequality and the distribution of income is related to three things: the distribution of assets, the returns on those assets and the incidence of public policy. Though some assets which may be relevant for creating inequality, like natural intelligence or other personal characteristics might be innate and non-transferable, it seems very unlikely that the distribution of these differs much across societies. In consequence they are not interesting candidates for explaining the difference in inequality between, say Egypt and Sweden. The distribution of the most significant assets such as land, and physical and human capital, does differ a lot. This variation is caused by differences in the nature, definition and enforcement of property rights. Once the distribution of assets is determined, many factors influence the rate of return on these assets. Clearly, this may depend on the structure of the economy and technology, and such things as relative scarcity. But the outcome of market processes is heavily dependent on how those markets are organized – on their institutional structure. These institutions vary a lot across countries and hence so would inequality even if the distribution of assets were identical. Finally, public policy is directly an outcome of the political system and political institutions and is another significant source of variation in inequality. Both political institutions and policy outcomes obviously vary greatly across countries.

My perspective is that these factors that I have mentioned are the *proximate* cause of the extent of inequality in a country and they are also responsible for differences in inequality between countries. A country will tend to be relatively equal if the distribution of assets is relatively equal, if the distribution of the rates of return is relatively equal and if public policy is egalitarian. Of course there can be offsetting effects. Public policy may counteract the impact of highly unequal returns on assets. Nevertheless, it seems to be a stylized fact that forces which lead to an egalitarian distribution of assets, for instance, lead to equality in these other dimensions as well. In Sweden, tax and transfer policies are obviously very egalitarian and reduce inequality relative to the pre-tax distribution of income. Yet this pre-tax distribution is already relatively very equal because the same forces that lead to egalitarian tax and transfer policy, also lead to labor market institutions, such as centralized wage bargaining, which compress the distribution of wages. Finally, the impact of labor market institutions and public policy interact in tandem with other policies which promote an egalitarian distribution of assets, particularly human capital.

All of these factors which I have emphasized are deeply political. Though I mentioned public policy and politics last, in fact it is the political process which determines how property rights are defined and enforced and also to a large extent the institutional structures of markets. So political factors lie behind all three of the building blocks of inequality I laid out and in this paper I shall argue that it is differences in the political equilibrium of societies which are the *fundamental* cause of differences in inequality. These different equilibria create different patterns of asset ownership, different sets of property rights, different market institutions and different public policies.

Yet economic theory traditionally built a theory of income distribution where politics never appeared. It took the distribution of endowments and assets and the enforcement of property rights as given. If markets were competitive so that assets earned their marginal product, then one could derive the distribution of income (the so-called marginal productivity theory of distribution). Problems were recognized, for instance markets may not be competitive and if there are increasing returns to scale there is the problem that total revenues from production are not sufficient to pay all factors their marginal product. Nevertheless, this structure has heavily conditioned the way economists have thought about inequality.

The point of view I develop here is not that this structure is wrong, but on its own it does not add up to a satisfactory explanation of inequality. First, it ignores the issue of asset ownership. Theoretically this might not be relevant in a dynamic model if one could claim that there was a unique ergodic distribution of assets to which the economy converged (Brock and Mirman, 1972). But we know this is very unlikely to be the case (Loury, 1981, Banerjee and Newman, 1993). Even if this were true, the theory says nothing about the enforcement of property rights. In reality the distribution of assets does not just evolve as a function of exchange, accumulation and inheritance. People expropriate the assets of others. We know both historically (North and Thomas, 1973) and in the contemporary world (Acemoglu, Johnson and Robinson, 2001, Besley and Ghatak, 2009) that there is huge variation in the enforcement and stability of property rights. Since this variation appears to be consequential for economic performance, abstracting from it will not deliver a model of inequality which matches the evidence. For example, it is difficult to think about modern British economic history or levels of inequality without taking into account the massive redistribution of assets induced by the enclosure of common lands between the 16th and 19th centuries (Allen, 1992). The same is true about France and the consequences of the French Revolution on inequality (Morrisson and Snyder, 2000). It is also true about the modern development experience of East Asian countries such as Japan, Taiwan, Korea and China, all of which experienced important redistributions of assets soon after the end of the Second World War. Finally it is true about Latin America, the region of the world with by far the greatest levels of inequality. Here in the second half of 19th Century, as the world economy boomed, huge redistributions of property rights took place, a process which often involved the expropriation of church or the lands of indigenous peoples (for Mexico Bazant, 1971, discusses the former and Coatsworth, 1974, the latter).

Second, the postulate that the return on assets is determined in competitive markets is also obviously also far from reality. The differences between the wages of skilled and unskilled workers differ massively between Norway and the United States. This is so even though technological levels are very similar as are the levels of education and human capital investment. The fact that the skill premium is so much lower in Norway than in the United States is not because Norwegians use worse technology. Moreover, if anything the relative supply of skilled workers in the United States is higher (at least the proportion of the population who graduate from university is higher) suggesting the premium should be higher in Norway. The reason for the differences is labor market institutions which massively compress the skill premium in Norway (as they do in most other Northern European and Scandinavian countries – Wallerstein, 1999). The large increase in wage and income inequality in the United States and the United Kingdom over the last 30 years is often attributed by economists to 'skill biased technical change' raising the relative productivity of skilled workers. Yet continental European countries, subject to the same technological forces, have not experienced similar increases in inequality. This is again because of the completely different way labor market institutions work in these countries. A final obvious problem with the marginal productivity theory of distribution is the large proportion of modern workers who are in the public sector and thus have their wages set by an administrative process. This seems to generally compress the wage structure compared to what a market would produce and the relative size of the public sector in continental Europe is again no doubt a factor pushing towards greater equality.

Thirdly, and most obviously, the marginal productivity theory of distribution does not explicitly treat the role of the state and the political process in the determination of public policy. This is so obviously a first-order source of variation in outcomes that an explanation for inequality which does not explain it is bound to miss a lot of what is important.

The relevance of these phenomena should be more than obvious in the Middle East and North Africa (henceforth MENA). Just as it is not possible to think about the economic history of Europe, Latin America or East Asia without thinking about the distribution and redistribution of property rights, the same is true in the MENA region. In the 19th Century MENA was hit by many of the same shocks emanating from an industrializing Western Europe as were other peripheral areas, such as was Latin America. This led to improvements in the terms of trade and deindustrialization (Pamuk and Williamson, 2009) and what little evidence we have also indicates that inequality may have risen as it did in Latin America (Yousef, 1998, Williamson, 2000, though Hansen's calculations for Egypt between 1900 and 1938 suggest falling inequality, 1991, p. 47). One consequence was major reorganizations of property rights in land as land became more valuable (Owen, 1981, Issawi 1982). Land concentration surely increased as domestic elites accumulated land to take advantage of new market opportunities and an oligarchic political economy emerged, though unlike in Latin America, outside of Egypt its power and extent was muted by the lingering presence of the Ottoman Empire particularly during the height of the Tanzimat reforms. In the 20th century, after the collapse of the brief period of European rule after 1918, this oligarchic equilibrium was everywhere challenged by groups pushing to redistribute wealth and assets. This led to land reform in Egypt after the 1952 revolution, and also in Syria and Iraq (Warriner, 1962, Issawi, 1963, Owen, 1972). Even monarchical Iran implemented agrarian reform in the 1960s, though this time as a strategy by the Shah to undermine the power of the aristocracy and facilitate his own style of absolutism. In Algeria after the war of independence vast amounts of land owned by French settlers were also confiscated and redistributed. In addition to land reform, the governments of the MENA region engaged in mass nationalization of assets, a process only slightly reversed through privatization since the 1990s. Thus the distribution of assets is just as endogenous in MENA as elsewhere in the world and obviously the outcome of a political process.

Market institutions also have important consequences for inequality in this region. In the 1960s President Nasser decreed that no Egyptian could make more than an income of 5,000 Egyptian pounds! The massive expansion of government employment throughout the Middle East and North Africa in the second half of the 20th century similarly meant that a large proportion of wages in the formal sector were administered, not set by markets.

Finally, public policy is crucial. The examples already show this, from land reform to Nasser's income ceiling. Governments have also directly redistributed income in many ways in particular via heavy subsidies of food.

A political economy approach to inequality therefore tries to explain the levels of inequality observed in MENA by understanding the political forces involved and how they lead to the distribution of assets, market institutions and public policy that we observe in MENA (see Bibi, 2008 for a comprehensive overview of inequality in MENA and some comparisons).

The paper proceeds as follows. In the next section I discuss the political economy of inequality in the Sudan as a motivating example to illustrate how politics shapes inequality through the interaction of the distribution of assets, the determinants of the rate of return on those assets, and the nature of public policy. I argue that it is impossible to begin to think about how inequality is determined in Sudan without taking politics into account. Section 3 then develops a simple theoretical framework for thinking about the political economy of inequality. Section 4 provides a general discussion of the politics of policy where I move the discussion more in the direction of generating some predictions about what the political equilibrium in MENA should look like. In section 5 I try to put together some of the ideas I have laid out by identifying what appears to be something of a puzzle that begins to emerge in section 4 - the relatively low levels of inequality in MENA compared to other parts of the world. I say this not because I think that there is not inequality in the MENA area and that this is not bad or that policy should not be designed to combat it. My only point is that, from the perspective I develop, it is surprising that there is not more inequality in MENA than there is. I make some conjectures in section 5 about why I think this is, in particular making comparisons with Latin America. Section 6 concludes.

2. The Political Economy of the 'Black Book of Sudan'

In 2000 a pamphlet written by 'Seekers of Truth and Justice' entitled "The Black Book: Imbalance of Power and Wealth in Sudan" began to circulate in Arabic in Khartoum. It was first distributed outside mosques after Friday prayers. It was translated into English in 2004. The argument of the book is that since independence the government of Sudan has been dominated by the Northern Region which even though representing only 5% of the country's population has monopolized political power and resources. For example, the book documents the proportion of ministers in all of the different governments since independence that come from the north. These proportions fluctuate around 70% (Black Book, pp. 8-11). Every president of Sudan has been from the north. When oil was developed (Sudan first started to export oil in 2000) the government formed a committee to decide on the division of the oil revenues between the central and state governments. Of the 25 members of the committee 19 were from the Northern Region.

Though the Black Book is a polemical and obviously political document, its claims have been analyzed by Cobham (2005) using readily available data compiled by international institutions and found to be basically correct. Table 1 reproduces Cobham's Table 4. It shows that government expenditures and subsidies have heavily favored the North. Even though Khartoum also does well it is important to note that what is spent in Khartoum is much less than what is raised there in taxes. In fact the North benefits from taxes raised all over the country, particularly in Khartoum and the Central region but also in the East. These numbers also show the extent to which Darfur has been discriminated against. Table 2 reproduces Cobham's Table 7 which shows some basic data on educational outcomes. Though literacy and school enrollment are high in Khartoum, the north also stands out relative to any of the other regions, and the comparison between the literacy rates in Darfur and Kordofan or school enrollment in the south is staggering.

The evidence in the Black Book, corroborated by Cobham, shows that public policy has massively favored the north of the Sudan at the expense of the rest of the country. Indeed, the Black Book even claims that policies are devised to immizerize the rest of the country quoting the disturbing adage "starve your dog and he will follow you" (p. 28) (see also the discussion of the use of sugar subsidies to provide resources for education p. 23). What about property rights? The most obvious source of evidence on the nature of property rights in Sudan comes from the recent civil war in Darfur. Here available evidence suggests that Janjaweed militias allied with and or controlled by the government in Khartoum have systematically expropriated people's assets, but also killed and destroyed their homes (see Flint and de Waal, 2008). Property and human rights are precarious in the extreme with dire consequences for economy and society. The same was true historically when a series of governments in Khartoum fought a long war in the south.

We know little about the consequences of all this for inequality. The WIDER database reports numbers only for the late 1960s suggesting that the Gini coefficient was about 0.45 in Sudan. One can only imagine that it is much higher now.

No doubt there are many factors that influence the extent of inequality in Sudan. Some of these, such as the nature of stateless societies like the Nuer, lie deep in the history of state formation and polities in Africa. Others may be due to its geography and resource endowment. But the most obvious root of inequality in the Sudan is politics. It is the political power of the north that allows it to skew government policy in its favor, and it is the power of the Janjaweed and groups allied to the government that allows them to expropriate assets and kill people and destroy their property.

Where does this power come from? At some proximate level this is connected to the fact that people from the north control were able to dominate governments after independence whose primarily authoritarian structure disenfranchised the majority of people in the country to their great disadvantage (Sudan experienced only small windows of democracy which were quickly overthrown by coups). Northerners were also able to structure the political institutions to propagate this power. Yet we can also ask why it was that the north was able to assert such control, and not, say the Fur? The Black Book grounds the political power of the north in families and clans particularly that of the descendents of the Mahdi, the great religious leader who led the successful rebellion against the Anglo-Egyptian state in the late 19th century and also of the house of Mirghani. Northerners seem to have shared some identity in common and particularly a sense that they were different to the people in the rest of the country. They had interests in common. They were also able to solve the collective action problem and act on these interests and take control of the army and the national government after independence.

3. A Tentative Framework

To think about the political economy of inequality it is useful to have a simple framework. The best place to start building one is conflict of interest. Property, for example, is in finite supply. If all individuals prefer more to less, the standard postulate in economy theory, then there will be conflict over property because of scarcity. The same is true for market institutions. A free competitive market may pay factors of production their marginal product but by distorting the functioning of the market I may be able to generate rents for myself, my friends or my supporters. The situation with respect to public policy is the same. Some people have to pay taxes, others benefit from the revenues, so there will be conflict over who pays and who receives.

In a society made up of people with such conflicts of interest what happens? This is determined by the political process. Again, thinking simplistically, we can say what happens depends on whose preferences or interests are most important or in other words who has more power. If I have more power than you I get to have the assets and the property, I get to determine whether market institutions give rents to me or you (I prefer myself) and I get to decide on the incidence of public policy.

Going back to Sudan it is the northern clans and families who have power so property rights, market institutions and policy all cater to their interests. To take another stark example from the Middle East in 1948 the Jewish settlers of Palestine expropriated vast amounts of land previously owned by Palestinians and destroyed over 200 Palestinian villages (Khalidi, 1992, Pappé, 2006, Morris, 2008). Since 1968 the creeping annexation of the West Bank has similarly led to large tracts of land owned by Palestinians being declared state land and then developed for Israeli settlers (B'Tselem, 2002). There are now 121 Israeli settlements with about 260,000 settlers living on the West Bank. Not just property rights but market institutions and policies discriminate against Palestinians and in favor of Israelis. Israelis for example have freedom of movement between the West Bank and Israel, Palestinians do not (with the partial exception of those who have Jerusalem residency cards). Israeli's living on the West Bank get subsidized water, Palestinians have to buy their water from monopolies controlled by the Israeli state at much higher rates. The result of these policies is massive inequality between Israelis and Palestinians and the source of this is quite clear. The Israeli settlers and government benefit from overwhelming military force. Moreover, since Palestinians living on the West Bank do not vote in Israeli elections they are helpless to influence the policies deepening their impoverishment.

This discussion suggests that it is the distribution of political power in society which determines whose preferences count. It is useful to think of this power as stemming from two inter-locking sources (see Acemoglu and Robinson 2006): *de jure* (institutional) and *de facto* political power. De jure political power refers to all types of power that originates from the political institutions in society. Political institutions determine the constraints on and the incentives of key actors in the political sphere. Examples of political institutions include the form of government, for example, democracy vs. dictatorship or autocracy, and the extent of constraints on politicians and political elites. There is more to political power than political institutions, however. A group of individuals, even if they are not allocated power by political institutions, for example as specified in the constitution, may nonetheless possess political power. Namely, they can revolt, use arms, hire mercenaries, co-opt the military, or use economically costly but largely peaceful protests in order to impose their wishes on society. I refer to this type of political power as de facto political power, which itself has two sources. First, it depends on the ability of the group in question to solve its collective action problem, that is, to ensure that people act together, even when any individual may have an incentive to free ride. Second, the de facto power of a group depends on its economic resources, which determine both their ability to use (or misuse) existing political institutions and also their option to hire and use force against different groups.

The discussion of the political economy of Sudan illustrated how both de jure and de facto power are important. Northerners are able to discriminate against the rest of the country because they hold de jure power. They control the central government in Khartoum and they set government policies. However, the discussion also made clear that one of the main reasons why northern groups have this de jure power is because they also have de facto power. They are able to solve the collective action problem much better than other groups in Sudan and they also control the military. Here de jure and de facto power powerfully reinforce each other since the resources that the central state can channel to the north undoubtedly also strengthens its de facto power. The fact that these forces so often seem to reinforce themselves is the likely reason why inequality is so inertial over time. The example of the expropriation of land in the West Bank by Israeli settlers also powerfully shows how de facto and de jure power interact.

At this point it is worth emphasizing that there are no doubt constraints on the power of groups to get what they want, even if they control the state apparatus. One, obviously is the de facto power of those that do not control the state. The power of the central states in Khartoum, for instance, is limited by the ability of people in the periphery of the country to take up arms and fight it, a manifestation of de facto power. But another important factor here may be the 'capacity' of the state (Mann, 1986, 1993). Just because a group had de jure power does not necessarily mean that it can transform society in the way it wishes, even abstracting from the ability of society to resist. To transform a society a state needs information, it needs a bureaucratic infrastructure and it needs a core set of institutions which enable it to change property rights, regulate and structure markets and enforce its will and policies. Such capacities obviously vary quite a lot and while they sometimes can be created, they are also the outcome of deep historical processes which may be very path dependent (Herbst, 2000).

This framework suggests that what causes variation in inequality across countries or over time within a country are differences or changes in the distribution of political power. This may happen because some group which was previously disadvantaged solves the collective action problem. This happened, for example in the United States South in the 1950s where the black civil rights movement massively changed the balance of de facto power. This eventually led to such national measures as the voting rights act of 1965, which increased the de jure power of blacks as well (since it stopped southern whites disenfranchising them through the use of poll taxes and literacy tests). The framework implies that if you want to start thinking about why inequality in Sweden is lower than it is in Morocco though it will be useful to look at property rights, market institutions and public policy, the fundamental explanation for inequality will come from thinking about the comparative politics of Sweden and Morocco.

The political equilibrium of a country and its consequences for inequality will depend on many things. I have emphasized the extent to which different groups in society are able to act collectively and also political institutions. But both are at some level endogenous and will depend on aspects of the economy, technology, factor endowments and social structure. To give an important example of this, the great differences in levels of inequality between North and Latin America have been argued to be a consequence of the very different political equilibria in these societies (Engerman and Sokoloff, 1997). Engerman and Sokoloff argued that these differences in inequality, highly persistent over time, were the result of very different political equilibria, which formed during the colonial period. These distinct political equilibria, and distribution of political power, were shaped by differences in the factor endowments of different colonies at the time of colonization. In large parts of Latin America, where there were dense populations of indigenous peoples and where there were rich deposits of gold and silver, the Spanish were able to use their coercive dominance to create a hierarchical society based on the extraction of rents from the indigenous peoples. Spaniards monopolized assets and de jure power and created high levels of inequality. Such circumstances were reinforced if the colony had a geographical location or climate suitable for growing sugarcane because this led to mass slavery, a situation which induced very similar institutions. In the United States, in contradistinction, there were relatively few indigenous peoples and the early attempts to colonize Virginia and Maryland on a coercive basis collapsed. English elites realized that to make the colony economically viable they had to give people incentives and this they did by granting them political rights and access to land. Thus a much more equal society emerged, at least for white people.

In the account of Engerman and Sokoloff, the instance of colonization acts as a 'critical juncture' where societies formed in different ways with different distributions of power and different political and economic institutions. Once formed, these societies had very strong forces of persistence built into them, along the lines of my earlier discussion of the feedbacks between de jure and de facto power. For instance, in the 19^{th} Century, the post independence societies in the Americas reacted very differently to different shocks in ways that depended on their political equilibrium. García-Jimeno and Robinson (2009) study one very clear instance of this. They show how the impact of the availability of 'frontier lands' on long-run economic and political development of the Americas depended on the initial political institutions at the time at which the frontier opened. For countries with bad political institutions (as measured by 'constraints on the executive' from the POLTY IV database) long-run growth is negatively correlated with the size of the frontier, while for countries with good political institutions, such as the United States and Canada, it is positively correlated. The mechanism is clear. In the United States frontier lands were granted in an egalitarian manner, a pattern enshrined in the 1862 Homestead Act. In Latin America frontier lands tended to be allocated in a highly oligarchic and inegalitarian manner, thus providing a tool for the initial elite to sustain and even strengthen their power.

Econometrically, Acemoglu, Johnson, Robinson and Yared (2008) show how in former European colonies, historical factors such as population density in 1500, or the mortality environment facing Europeans (which heavily influenced settlement patterns) have shaped the subsequent path of both economics and politics. In their language income per-capita and the extent of democracy 'co-evolve' but in ways which depend on the initial structuring of society.

This account of comparative economic performance and inequality within the Americas emphasizes the historical role of factor endowments in determining the political equilibrium. But of course the equilibrium can potentially be changed by more contemporary factor endowments or by changes in technology. In the context of the Southern United States, for instance, it has been argued that it was the mechanization of cotton picking in the 1950s which, since it implied that a large repressed labor force was no longer required, facilitated the change in the political equilibrium of the South (see Acemoglu and Robinson, 2008).

One obvious set of factor endowments which have been argued to be an important determinant of the political equilibrium of a society are natural resources. Early work on the 'resource curse' tried to establish reduced form relationships between resource abundance and low growth or emphasized purely economic mechanisms such as exchange rate overvaluation. The more recent research, however, focuses on the political consequences of resource wealth, particularly oil. There are three main claims in this literature (comprehensively discussed in Ross, 2009). First, natural resource wealth and oil lead to authoritarianism, second, they lead to low state capacity, and third, they lead to civil war.

The causal mechanism linking resource wealth to authoritarianism is apparently straightforward. Oil gives an authoritarian regime large amounts of wealth that it can use to consolidate itself, co-opt supporters or build up coercive capacities. Though there are cross-national correlations between resource wealth and measures of authoritarianism the empirics have been contested. Dunning (2008), for example, argues from the Venezuelan case that oil wealth may sometimes promote democracy because it also gives democrats resources to avoid the types of social conflicts that often lead to coups. He shows theoretically that the pro-democracy aspect of oil will tend to be more important when inequality is higher, and he finds this empirically for Latin America. More generally, Haber and Menaldo (2007) construct long historical time series of resource wealth and focus on the 'within variation'. They find little impact on the regime type of the discovery of oil. Other work, both theoretical

(Robinson, Torvik and Verdier, 2006), and empirical (Moene, Mehlum and Torvik, 2006) suggests that the impact of resource wealth on politics and economic growth is conditional on the initial institutional equilibrium, rather along the lines of the argument of García-Jimeno and Robinson (2009) about the frontier discussed above. These papers see the institutions of society as highly persistent and shaping the response to resource discoveries, but they do not emphasize large feedbacks from resource wealth to the institutional equilibrium.

The second line or argument, which has been much less investigated empirically, is that resource wealth retards state capacity (see Herbst, 2000, for this argument in Sub-Saharan Africa). The main suggested mechanism is that resource rents induce the state to become a 'rentier state' (a concept first used to describe the Iranian state, Mahdavy, 1970). In consequence the state does not need to develop the necessary 'infrastructural power' (Mann, 1986, 1993) necessary to collect taxes and has little capacity to shape or organize society. Such states have little ability to enforce other policies or, for example, effectively supply public goods or shape development. This argument could be connected to authoritarianism since historically the necessity to collect taxes has often been argued to lead to representation and the empowerment of representative institutions ('no taxation without representation').

Finally, the evidence does seem to be consistent with the claim that natural resource wealth helps to induce civil war (Ross, 2006). One of the clearest examples of this is the comparison between Angola and Mozambique. In the early 1990s both countries went through peace processes after long civil wars which culminated in elections for president and congress. In both countries the guerillas formed themselves into a political party and lost the elections to the incumbent government. In Mozambique RENAMO came to terms with their defeat and took up the role of the democratic opposition. In Angola UNITA rejected the outcome of the election and went back to fighting. A huge difference between these two countries seems to be that there were few resources in Mozambique while in Angola the government controlled oil, while UNITA controlled the diamond mines of the interior.

The literature on natural resources has not focused on inequality and ex ante it is not clear what the consequences are. For instance, since oil rents tend to accrue to the government, one could argue that this would facilitate the provision of public goods and income redistribution in ways that reduced inequality. Moreover, the implications of some of the mechanisms described above for inequality are not clear. Take state capacity. Are rentier states good or bad for inequality? One could make arguments either way. States with little capacity do not have the ability to change society, but this may lead to equality or inequality depending on what society looks like and on who is in charge of the state. The fact that the Sudanese state no doubt has limited capacity probably promotes equality in Sudan, other things equal.

Most obviously, however, the connection between oil and authoritarianism may suggest that oil promotes inequality because it tends to lead to very unrepresentative governments. There is some evidence that authoritarian regimes are more unequal on average (Rodrik, 1999) though as I will discuss later, it does not appear to be the regimes in the MENA region which are driving this correlation. Following the work of Haber and Menaldo (2007) one could argue that it is not clear what the causal effect of oil is on authoritarianism in the Middle East. After all, no MENA countries were democracies prior to the discovery of oil and there are MENA countries, such as Jordan or Morocco, with little or no oil, but which are still highly authoritarian. Nevertheless, while these are valid arguments, it seems difficult to believe that the dominance of oil wealth does not help to prolong the non-democratic regimes in MENA.

Finally, there may also be relatively pure economic linkages between natural resource wealth and inequality. For example, an economy dominated by oil, such as those of the Persian Gulf and much of the Arabian peninsular, may be highly dualistic, which may itself be a source of inequality. For example, MENA countries have very low levels of labor force participation, particularly female participation. This is no doubt related to the structure of the economy and Ross (2008) shows that this appears to have important consequences for female empowerment.

4. The Politics of Policy

In the last section the emphasis was on ‘preference aggregation’ and discussing how the distribution of political power in society was critical in influencing the extent of inequality. It does this through its effects on the proximate determinants of inequality, asset distribution, market institutions and public policy. The most obvious political part of my whole discussion of the determinants of inequality is the last of the three - government policy. Even those who argue that the policies of at least democratic governments can always be determined on the basis of those that maximize total surplus admit that political power determines the distribution of that surplus (Wittman, 1989). This must be true a fortiori for the authoritarian regimes which dominate the political map of MENA.

The politics of policy has been the area most studied by economists and political scientists. Unfortunately, most of the literature has dealt with political systems which are quite different from those in the MENA region. For one thing the focus is heavily on democracies and variation in democratic institutions as sources of variation in policy outcomes. For example, it has been argued that proportion representation electoral systems generate more income redistribution than majoritarian electoral systems (Milesi-Ferretti, Perotti and Rostagno, 2002) and that presidential systems generate greater spending on public goods than parliamentary ones (Persson and Tabellini, 2004). However, these results say little about the forces shaping policy in the Middle East. Even in the most democratic of these, such as Egypt, the underlying policy logic appears to be radically different (Blaydes, 2006). Moreover, the models that have been developed in this literature must be irrelevant for understanding the policy choices of the al-Sabah family in Kuwait or the Saudi royal family.

Though there is some research on the political economy of redistribution under dictatorship, this also seems to generate predictions which are far from the facts in MENA. For instance the “selectorate” theory of Bueno de Mesquita, Morrow, Siverson and Smith (2003) suggests that there will be greater redistribution when the “winning coalition” – those who decide who the ruler will be – is relatively large. Yet, Sudan aside, one observes countries in the Middle East with very narrow winning coalitions engaging in quite extensive redistribution of income. This is most clear in the gulf principalities and Saudi Arabia but is also true in Syria, despite the concentrated power of the Alawi sect and it was true in Iraq even after the seizure of power by the Ba’th Party in 1968 when the governing elite was drawn from a small region between Tikrit and Baghdad (Owen, 2004, pp. 35-36).

Just as democracies vary a lot in their institutions, so do dictatorships. Unfortunately, the consequences of this for policy or redistribution has been little studied though political scientists have begun to investigate how the structure of dictatorships influences their propensity to democratize (Gandhi, 2008). In the context of MENA Lust-Okar (2005) emphasizes that differences in the political institutions within authoritarian regimes are crucial for understanding their policies and longevity.

The basic prediction which would emerge from what models and intuition there is in the existing literature is that given the highly authoritarian nature of political systems in the Middle East, we ought to see policy catering very closely to the interests of a quite narrow elite. In consequence we should not see much investment in public goods and we should not observe extensive redistribution of income. More generally, we might expect policy to create greater inequality. This would be due not just to public good provision or redistribution but also the structure of market institutions and the distribution of assets. All should be inequality increasing.

This prediction does not seem to be completely wrong, but it also not very right either and it does not seem to capture the general tendency in MENA. There certainly are ruling elites across the Middle East and North Africa who have massively enriched themselves from the coffers of the state. In addition, rulers and their supporters have manipulated market institutions to create rents and monopolies which they can benefit from themselves or distribute as patronage. The most egregious example of this seems to be Morocco where King Hassan II who ruled between 1961 and 1999 became one of the largest businessmen in the country (Owen, 2003, p. 43). It has also been important in Egypt and Tunisia where the ruling elite has given privileges to small numbers of businessmen (Owen, 2004, p. 92 and see the essays in Heydemann, 2004). But counterbalancing this tendency has been large investments in public goods, particularly education and extensive income redistribution. This redistribution often takes the form of food subsidies, a form of private good no doubt useful as a way of generating incentives to support the regime (see Bates for the seminal analysis, 1981). But the extent of such redistribution is nevertheless quite surprising given the nature of political regimes.

One way of thinking about this puzzle has been developed by Yousef (2004) and Desai, Olofsgård and Yousef (2007) (see also Adams and Page, 2003, and Heydemann, 1999, on the Syrian case). Their argument, in essence, is that authoritarian regimes helped to consolidate themselves in the MENA region via a type of 'social contract' which implied engaging in quite extensive social welfare policies. Even if these regimes are authoritarian, it is important to understand that the behavior of authoritarian regimes depends on the circumstances in which they come to power. In general there may be trade-offs between repression and concessions/redistribution for such regimes. Narrow elites can only reorganize society in their interests if they can effectively repress or disarticulate opponents, as has happened in Sudan. While there is variation in the extent to which repression and redistribution are combined in MENA (see Desai, Olofsgård and Yousef, 2007) what seems to be true is that ruling elites have found repression relatively costly as a way to maintain power. This has certainly happened, for instance in Syria with the Muslim Brotherhood, but has also been combined with social policies to win support.

The social contract is not the only explanation for these public policies. I emphasized earlier that public sector wages are set administratively and this tends to compress wage inequality. Public sectors tend to be much larger in MENA compared to Sub-Saharan Africa or Latin America. Why would authoritarian regimes in MENA expand the state much more than in other such regimes? Clearly, expansion of the public sector may be one method of social control, since private sector groups would tend to have more autonomy from the government. But such an incentive applies everywhere. What may distinguish MENA are the different revenue bases which facilitate this expansion, most obviously oil, and also greater state capacity, possibly as a consequence of the Ottoman bureaucratic legacy which lasted much longer and more effectively than say the bureaucratic legacy of the Bourbon state in Spanish Latin America, and was absent in most of Africa south of the Sahara.

Another obvious source of variation in social policy is international conflict. It is possible that the fact that Syria, Egypt and Jordan, for example, have been locked into antagonistic conflict with Israel for much of their independence, means that their leaders have to generate much more social consensus and that redistribution is targeted at this. I note, however, that one can argue the reverse – that having "enemies" increases the extent to which elites can predate on society. This argument clearly applies in some cases, such as the Argentine invasion of the Falkland Islands in 1982 to deflect opposition of the domestic policies of the military. Nevertheless, the nature of the conflict in MENA is more enduring and embedded, so this counter-argument may not apply.

Another idea about the greater extent of social policies could appeal to the relative homogeneity of MENA societies compared to Latin America or Sub-Saharan Africa which make providing public goods relatively cheaper as a method for generating support.

Finally, it could be that civil society is more mobilized in MENA, raising the cost of repression and forcing authoritarian elites to make policy concessions. Why this would be is not clear to me but social capital may be higher and it is possible that the strong religiosity in MENA is a contributing factor. Islamic groups such as the Muslim Brothers, Hamas, founded by the Muslim Brothers, or Hezbollah, seem to be relatively very good at solving the collective action problem which is likely related to religion.

5. The Puzzling Equality of the Middle East and North Africa

The thrust of the argument in this paper is that the most fundamental step in understanding levels of inequality in MENA would be to think about the political process and the balance of political power in those societies. Certainly, the distribution of assets such as land and physical and human capital will be important as will the institutional structure of markets and the role and extent of the state. But lying behind this will be the political forces which shape the distribution of assets, which distribute market opportunities and rents and which set public policy.

Seen from this perspective, the most puzzling thing about inequality in the Middle East is how low it is.[1] Inequality is high compared to some parts of the world and it no doubt has undesirable consequences, but as I began to suggest in the last section, it is lower than you would expect based on a first-pass political economy analysis. In many MENA countries, from the Maghreb to the Arabian peninsular, power is wielded by rather narrow groups. This is most obvious in Saudi Arabia, Kuwait or Bahrain, where families rule, but it is equally true in the Kingdoms of Jordan and Morocco, or in Syria and Sudan. Political economy suggests that such elites would create a great deal of inequality in society by amassing assets, distorting markets in their favor, and by tilting public policy to suit their interests. As my example of the Sudan drives home, this has certainly happened in MENA. However, it seems to have happened much less than one might have imagined, or to the extent that it has happened, it has happened in tandem with other factors which have mitigated the total effect on inequality.

There seem to be two potential hypotheses which can explain this, one of which I have already foreshadowed. I focus on the comparison with Latin America's very high levels of inequality because, as I alluded to in the introduction, the similarities of the historical processes at work seems compelling. Yet today inequality is much lower in MENA than in Latin America. There seem to be several ways to explain this.

The first explanation is that even though inequality rose in the second half of the 19th century and maybe the earlier 20th century, exactly as in Latin America, it did so from a much lower base. There is no doubt a large difference between the Spanish and Portuguese colonial empires in the Americas, based on the exploitation of slaves and indigenous peoples, and the Ottoman empire. There were few slaves in MENA in the 19th century, particularly outside the Arabian peninsular. Though there did exist forced labor, such as that used by Mohammed Ali in Egypt to build the Nile barrages, it was small in extent and duration compared to such

1 I must add that perhaps this is a conjecture given that there are many gaps in the data for MENA. We know little about inequality even today in the Arabian peninsular and if there are generous social welfare programs for citizens in this region, the majority of the population is non-citizens who share in few of these services. This would make the task of really calculating inequality in Dubai, say, very difficult.

institutions as the mining *mitas* of Andean South America (see Dell, 2007, for the long run negative effects of these). The more bureaucratic and less exploitative nature of the Ottoman state may have plausibly led to lower inequality in MENA in 1800 compared to Latin America. Moreover, the Ottoman state stayed in charge of large parts of the area in the 19th century and as I noted above, during some periods even implemented reforms which may have counteracted forces pushing for higher inequality. Though since independence many of the forces I have discussed above may have been in operation, this view suggests that the real reason for the low levels of inequality in MENA is a legacy of the Ottoman Empire. Inequality may have gone up between 1850 and 1914, but the level stayed low. Nevertheless, this view must still appeal to some of the forces discussed above to account for why inequality has not increased since independence.

The second explanation is that inequality did increase, maybe rapidly, after 1850, but these increases have been reversed since 1950. This in itself is entirely possible. After all, the historical evidence on Western Europe suggests something quite similar. Many industrializing countries experienced dramatic increases in inequality in the 19th century but these were largely reversed in the 20th century as a consequence of democratization, changes in labor market institutions and social welfare policies (see Lindert, 2004, Piketty and Saez, 2006). If this could happen in Western Europe, there is no reason it could not occur in MENA.

The forces that pushed inequality down after 1950 are those that I discussed in the last section. Again the comparison with Latin America is interesting. While left-wing military regimes such as those of Nasser and the Free Officers movement implemented agrarian reform along with many other MENA countries, as I mentioned in the introduction, this seems to have really had a long-run impact on land inequality. Latin American countries also had land reform in the 20th Century, and even in the case of Peru after 1968 by left-wing military regimes. Yet the long run impact of this on inequality seems to have been very small. The study of Kelley and Klein (1981) on the Bolivian Revolution of 1952, which again featured radical agrarian reform, found that the resulting fall in inequality had been reversed by the mid 1960s. This again suggests that there are very different forces molding the political equilibrium of the MENA region.

These two paths are highly conjectural, but I do think that the comparative evidence suggests that we need a great deal of further research on the political economy of MENA and why this seems to have generally led to patterns of inequality rather different from what one might have imagined.

6. Conclusions

In this paper I have sketched a political economy approach to inequality. I argued that the central economic concepts such as the distribution of assets, property rights, markets, rates of return and public policy are all relevant. However, to explain what we actually see in the world we need to understand in far more detail how property rights are determined and enforced. We also need to know much more about how markets function and what institutions determine prices and rates of return. Finally, we need to understand why different countries have the public policies they do. In every case politics is critical.

Nevertheless, applying this framework to the extent of inequality in MENA generated a paradox – seen in comparative context the political economy approach to inequality suggests that there ought to be far greater levels of inequality in the region than there actually are. I proposed several ways of reconciling these facts with the framework I proposed. Nevertheless, my remarks are speculative and tentative and are more a call for research on the political economy of inequality in MENA in comparative perspective.

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Figure 1: Regional Revenues and Expenditure Per Capita; 1996-2000

REGIONAL REVENUES AND EXPENDITURE PER CAPITA; 1996 – 2000 AVERAGES (% OF VALUE FOR NORTH)

Region	Total expenditure per capita	Total revenue per capita	Effective subsidy per capita	Development expenditure per capita
North	100	100	100	100
Central	104	134.1	16.8	245.5
Khartoum	161.5	213.7	13.3	532.9
Central ex. Khartoum	60.6	70.9	23.8	35.5
East	73.7	98.4	1.6	79.5
West	44.1	43.9	43.3	17
Darfur	40.6	41.5	35.1	17.2
Kordofan	49.9	47.6	57.5	15.5

Figure 2: Literacy and Primary School Enrolment

LITERACY AND PRIMARY SCHOOL ENROLMENT

	Literacy, 2002*			Gross primary enrolment rate, 2002	Change, 1993–2002*		
	Average (%)	Male (%)	Female (%)		Average (%)	Male (%)	Female (%)
North	71.6	72	71.3	82.4	10.6	-2.9	26.1
East	42.8	43.5	42.5	42.5	-13.8	-29	12.9
Central	62.4	64.7	61.8	74.9	-2.6	-1.8	13.1
Khartoum	74.9	75.9	73.9	82.8	1.8	-6.4	13.7
Ex. Khartoum	53.4	54	53.1	70.4	-6.6	-20.5	12.7
West	37.9	39	37.1	44.2	-10.2	-33.6	43.3
Darfur	38.6	39.8	37.4	45.5	-13.1	-37	56.2
Kordofan	37	37.6	36.5	42.3	-5	-27.4	26.3
South	na	na	na	11.6	na	na	na