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Diagnose Better to Treat Better: Reassessing Income and Wealth Inequality Measurement in Africa

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Although inequalities, and inequities, pertaining to gender (Sustainable Development Goals, SDG5), race and, even, religion have made the headlines in recent years with the increased focus on gender pay-gaps, racial discrimination, and religious discrimination, the stark visual and welfare implications of income and wealth inequalities make them critical issues in development matters. The ill-effects, including revolts, crime and conflicts are well-documented in the extant literature. The SDG10, in recognising this, places the spotlight on proportion of incomes received by the bottom 40% of the populations within and across countries. In addition, improved transparency and clarity in income and wealth dynamics are vital for assessing public policies, optimal tax collection, public finance, and countries' progress towards more inclusive economic growth and development. Crucially, tackling the ill-effects of any inequality should begin with good measurement of the inequality, irrespective of the guise in which it comes.

According to global data, between 2010-2017, the Gini coefficient, which has remained the gold standard for measuring income and wealth inequality, has fallen significantly in 38 out of 84 countries. However, with the advent of the Covid-19 pandemic, and the strains of national containment responses, coupled with the forces of conflicts and climate changes, global extreme poverty is expected to rise in 2020/21 for the first time in over 20 years. It is becoming obvious that the most vulnerable groups in society, particularly Africa, will be hit hard, thereby exacerbating inequality within and across countries.

Although many countries in Sub-Saharan Africa (SSA) remain saddled with low human development problems, it is also notable that, in the past two decades, several SSA countries has made impressive strides in economic growth with double-digit growth rates. Between 2000-2010, six of the 10 fastest growing economies, globally, were in SSA. However, this has not been translated in reduction of income inequality. Subsequently, there seem to be no shortage of reports indicating that high inequality in income and wealth distribution remains a problem. For example, in the Southern African Development Community (SADC) region, South Africa, Seychelles and Namibia are reported as having Gini indices of approximately 0.63, 0.66 and 0.64, respectively. In terms of international rankings, Seychelles has been ranked as the most unequal country in the world, with Namibia third and South-Africa fourth. The Democratic Republic of Congo (DRC) follows closely with a Gini index of 0.61 and is ranked fifth globally. Interestingly, the seeming shortcoming in tackling inequality across SSA does not seem to be specific to resource-poor countries only, but also pertain in resource-rich countries such as the Congo, Nigeria, Angola, and South Africa.

However, while important strides have been made in recent years in gauging income and wealth inequality globally, with several global income inequality databases being constructed over the past decades including the World Bank's PovcalNet, the World Inequality Database, the LIS Cross-National Data Centre in Luxembourg, the OECD's Income Distribution Database, United Nations University World Institute for Development Economics Research's World Income Inequality Database, to mention a few, the fact remains that data for most developing low human-development countries which, arguably, require serious improvements in income and wealth distribution remain scant.

Further, the appropriateness of the Gini coefficient, as it stands, for African context is questionable. How significant are the shortcomings of the Gini index measurement in the African context, and even in developing countries more widely? Since data for developing countries remain scant, the problem of how to tackle inequality remains a problem in these countries.

Furthermore, considering the negative shock the Covid-19 pandemic is posing to both the levels and the inequality in income and wealth distribution across and within countries in SSA, and the significant welfare implications it is likely to have, a critical assessment should prove instrumental in understanding of the size of the problem, and furthering international comparability. This research is both topical and timely as important questions which need to be critically discussed and empirically investigated emerge.

Against this background, the main aim of this research is to, first, present a comprehensive review of income and wealth inequality to date, particularly in SSA and, in doing so:

(i) highlight distinctions between income and wealth in the analyses of inequality in the African context.

(ii) uncover how clarity (or lack) in the definitions of these inequalities have negatively impacted on policies that have aimed to reduce them.

Second, deriving from the comprehensive assessment, which will be specific in highlighting the vulnerabilities of the in-use Gini index for the African economic set-up, the research will make specific recommendations by proposing:

(i) fit-for-purpose measures and considerations – including highlighting the role of informal sector incomes – that can be used to improve the Gini measurement of inequality, particularly in relation to wealth distribution in the African context.

(ii) steps which when employed will enhance comparability in measurement of inequality across SSA countries to allow for comparability, thereby addressing consistency in measurement approaches e.g., in relation to statistical assumptions made in computing the Gini index, and other sampling and non-sampling errors.

(iii) the inclusion of some currently omitted variables which, we will argue, should be considered significant in the African context, but which may be less relevant in other advanced countries. Here also this will include the incorporation of a fitting role of the informal economy.

In this research, the measurement approaches of the major income and wealth inequality data providers will be critically reviewed within the African context. Further, country-level comparisons between available Gini estimates and the augmented estimates we will propose, should have important policy relevance as the continent aims to meet the SDG targets, and further economic integration.