

# Structural transformation and income inequality in Cameroon 2001-2014

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## Rationale & Background

The last decade has been marked by a series of economic crises and shocks that have resulted in a slowdown in global economic growth from 4% in 2010 to 1.9% in 2016. In Cameroon, the real GDP growth rate improved steadily between 2009 and 2014, rising from 2.2% in 2009 to 5.9% in 2014 before slowing down over the period 2015 to 2017 to 3.5% in 2017. Looking at the sources of this growth, it can be seen that the Cameroonian economy has been mainly driven by the service sector, which has grown steadily over time to the detriment of the manufacturing sector and agriculture.

## Aims & Objectives

Unlike in developed countries where the transformation of the productive structure of the economy is reflected in industrialization followed by the development of the service sector, in Cameroon, the development of the service sector precedes industrialization. Such a finding calls for questions to be asked, following Kuznets and Murphy (1966); Acemoglu (2002) on the effects of such a change in the structure of the Cameroonian economy on income disparities.

## Data & Methodology

In this study, unlike other studies on the effects of structural change on inequality, we use microeconomic data from the Cameroonian Household Surveys (ECAM) compiled at the household level over the period 2001-2014.

For econometrics analysis, we use the *Recentered Influence Function (RIF) regression* proposed by Firpo et al (2009). This model allows us to analyze the effects of structural change along the income distribution and on inequality indices taking into account the effects of covariables.

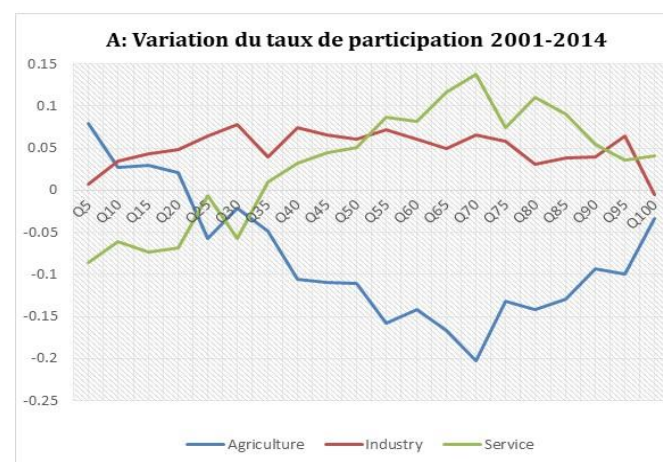
Structural change is measured by the sectoral composition of the labor force and sources of incomes.

$$l_i = \frac{L_i}{\sum L_i}$$

## Results

Between 2001 and 2014, income inequality increased as the country experienced a shift in the structure of its economy towards the highly informal service sector.

**Figure 1:** Changes in the structure of employment along the income distribution.



However, the structural transformation is not the same along the distribution of household income. Between 2001 and 2014, the structural transformation is particularly marked above the

35th percentile. Moreover, while below the median income the transition to the industrial sector is more pronounced than the transition to the service sector, the opposite dynamic is rather observed for individuals belonging to the upper half of the income distribution.

*Structural transformation, whether captured by an increase in the weight of secondary employment or in the income generated by these jobs, contributed to the decline in inequality between 2001 and 2007. By contrast, the increase in the labor force in the mainly informal service sector is associated with an increase in inequality.*

*With regard to the period 2007 and 2014, had it not been for the structural transformation resulting in an increase in the weight of secondary activities, the increase in inequalities observed over this period would have been greater.*

*The effects of structural change along the income distribution are heterogeneous. If in the 5th and 9th deciles, structural change tends to increase the gap in per capita consumption, at the level of the 1st decile, it contributes to reducing it. In the 1st and 5th deciles, the earnings gap between 2001 and 2014 increases by 0.76% and 5.66% respectively, while it decreases by 0.31% in the 1st decile.*

## References:

- Acemoglu, D. (2002), "Technical Change, Inequality, and the Labor Market", *Journal of Economic Literature*, 40(1), 7-72
- Firpo, Sergio P., Nicole M. Fortin, and Thomas Lemieux (2009). Unconditional Quantile Regressions. *Econometrica*. 77(3): 953-73.
- Kuznets, S. & Murphy, J. T. (1966). *Modern economic growth: Rate, structure, and spread*. New Haven: Yale University Press.