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The challenge of unemployment in the Arab region

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Unemployment and labour market problems present policy-makers in the Arab countries with the most challenging economic dilemmas: poverty reduction, expanded employment, improved labour conditions, greater dynamism of the labour market for sustained growth and a reduction in the budgetary burden of the public sector wage bill. By comparison with the typical situation in other developing countries, labour markets in the Arab countries are characterized by high rates of intra-regional labour mobility, high rates of unemployment, particularly of youth, and the dominance of the public sector in total employment. These distinctive features of Arab labour markets were moulded by such fundamental forces as high population and labour force growth rates, macroeconomic fluctuations caused by oil price instability, and the pervasive rôle of the State in the region's economic activity. It is on these forces that this article is focused.

A demographic transition which resulted in rapid population growth, combined with large-scale shifts of population from rural to urban areas, led to severe pressures on labour markets, especially in urban areas. While these pressures have been operating for at least two decades, their impact on labour markets was masked during the early period of growth associated with high oil prices. Only since the mid-1980s, when economic activity became sluggish and labour absorption slowed down, have policy-makers and researchers paid attention to these dynamic, long-run forces affecting labour supply and shaping Arab labour markets.

The first and second oil-price shocks (1973 and 1979) greatly improved oil-exporters' terms of trade and resulted in large foreign exchange windfalls, only to be followed by a decline in oil prices in 1982 and their collapse in 1986. The oil windfalls of the 1970s spread to oil-importing Arab countries through foreign aid and other capital inflows such as migrant remittances from the oil-exporting countries. The transmission mechanisms of worker

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remittances and Arab foreign aid introduced a powerful element of instability in the oil-importing Arab economies as they became subjected indirectly, but not necessarily less strongly, to the same negative shocks of oil-price reductions and fluctuations as those that have affected oil-exporting countries since 1982. Adjustment to declining oil revenues and related capital inflows was made difficult by the prior structural changes caused by the so-called Dutch disease, whereby the production of tradables suffered to the benefit of the booming non-tradable sector owing to appreciating real exchange rates during the oil price boom.

Since much of the inflow accrued directly to the public sector, the positive oil-price shocks permitted the region's governments – already dominating the economy – to expand their programmes and employment commitments substantially in the 1970s and early 1980s. They set up or subsidized large-scale industries, erected trade barriers, invested in expanded public services and infrastructure, and served as employers of last resort for educated workers. Moreover, because of the region's long history of military confrontations, substantial resources were devoted to military expenditures. The private sector growth that occurred during this period was largely dependent on serving the needs of the public sector or on exploiting profitable opportunities created by the public sector. The unsustainability of public sector expansion became obvious when government revenues became strained as a result of falling oil revenues, falling remittances or falling external aid. Yet governments found it difficult to readjust their expenditures downward. Instead the initial response of the public sector to declining revenues was continued expansion, possibly in the belief that negative revenue shocks were temporary, and certainly because of the political difficulty of cutting back on public sector commitments and programmes which were perceived as entitlements. The continued expansion of the public sector was financed by drawing down foreign reserves and by external financing of the growing fiscal and external deficits. When foreign financing was no longer forthcoming, public investment was severely curtailed, with devastating effects on growth in the second half of the 1980s. Many governments also had to curtail their hiring of young university and secondary school graduates, who had hitherto relied primarily on the government for employment. Coupled with large flows of return migration to some of the labour-sending countries in the early 1990s, the drastic reductions in public investment and hiring sent unemployment rates soaring, especially among young workers. While the crises faced by most of the countries of the region were precipitated by external shocks, unsustainable domestic policies during the boom period have largely contributed to the crisis and have made adjustment to the new external conditions in the 1990s very difficult.

The forces that have shaped the employment environment in the Arab countries are largely responsible for the somewhat delayed macroeconomic difficulties and introduction of structural adjustment programmes in the Arab countries compared with other developing countries. While in several developing countries the debt crisis erupted and programmes of structural adjustment were initiated in the early 1980s, the majority of Arab countries only confronted these adjustment problems in the late 1980s and early 1990s. Indeed, some of the Arab oil-exporting countries have managed to delay structural adjustment largely because of the substantial reserves they had accumulated and their small population size. Yet similar problems now face the Arab policy-makers, namely an excessively large public sector, large fiscal deficits, and a continually increasing number of job market entrants.

This article investigates the mechanisms through which economic and demographic forces have shaped employment in the Arab countries and analyses the current employment challenges to Arab policy-makers. The aggregate factors are taken up in the first two sections: the first evaluates the macroeconomic environment, including aggregate shocks and policy responses, and the second focuses on the demographic transition as the basis for high labour force growth rates and the related phenomenon of urbanization. The third section considers the manifestation of the Dutch disease in the form of sectoral employment shifts. High rates of intra-regional migration and the implications of return migration, which became evident in the 1990s, are analysed in the fourth section. The fifth section discusses the major employment challenges currently facing Arab policy-makers in the light of these factors, and conclusions are presented in the final section.

Macroeconomic performance, external shocks and policy responses

The first and second oil shocks induced rapid economic growth in most countries of the region. While the economies of the oil-exporting countries were already growing rapidly prior to the first oil shock, the greatest jump in growth occurred in countries with little or no oil. With capital inflows amounting to nearly 20 per cent of GDP on average, Egypt, Jordan, the Syrian Arab Republic and the Occupied Territories grew by nearly 10 per cent per year in the 1975-79 period.[1] The Maghreb countries, which received lower but still substantial capital inflows, continued their steady growth, at an average rate exceeding 5 per cent per year, through the mid-1980s.

Most governments responded to their increased revenues by sharply increasing investment spending. A comparison of the period 1974-81 with the period 1970-73 (the years just preceding the first oil shock) shows that the share of public investment in GDP increased from 9 to 17 per cent in the Mashreq countries (Egypt, Iraq, Jordan, Lebanon, Sudan, the Syrian Arab Republic, Yemen and the Occupied Territories), from 18 to 25 per cent in the Maghreb countries (Algeria, the Libyan Arab Jamahiriya, Morocco and Tunisia), and from 8 to 13 per cent in the Gulf Cooperation Council (GCC)

[1] Detailed figures on country-by-country macroeconomic performance are given in Diwan and Squire (1992, 1993).

countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) (see Shaban et al., 1994). Much of this spending was on infrastructural projects, but some governments (Algeria, Iraq, the Syrian Arab Republic) used the additional resources to expand their industrial base under the auspices of the public sector. Private investment increased as well, particularly in Egypt, Jordan and Saudi Arabia. In 1974, the Egyptian Government embarked on its open-door policy, lifting the ban on private sector participation in foreign trade and encouraging private investment in industry. The increased revenues also allowed governments to raise recurrent expenditures on social services and military hardware and personnel, and to hire large numbers of secondary school and university graduates. For example, Egypt expanded its civil service at an annual rate of 7.2 per cent during the 1970s, more than three times the rate of growth of the overall labour force (Hansen and Radwan, 1982, p. 59, table 12). Public consumption spending as a share of GDP increased in many countries as well.

The initial drop in oil prices in 1982 and their subsequent collapse in 1986 marked the end of the oil boom era. Arab oil revenues declined from $213 billion in 1980 to $53 billion in 1986 (Diwan and Squire, 1992, p. 6). The effect on economic growth was devastating. Over the period 1986-90 growth in all countries slowed markedly. In Egypt, Jordan, Sudan and the Syrian Arab Republic, GDP growth rates fell to less than a third of what they had been during the boom period. Growth rates became negative in many of the oil-exporting countries (Algeria, Iraq, Saudi Arabia, the United Arab Emirates). Even though only Jordan and Yemen experienced substantial declines in worker remittances, all the labour-sending countries experienced sharp reductions in foreign aid from the oil-rich countries.[2] These shocks resulted in a drastic deterioration in fiscal positions. Most countries delayed adjustment and attempted to continue financing their external and fiscal deficits through borrowing, but foreign financing was no longer freely available. Rescheduling of outstanding debt was made conditional on the adoption of IMF- and World Bank-sponsored stabilization and structural adjustment programmes. Since governments faced considerable difficulty in cutting current expenditures, they were forced to cut down substantially on public investments, which fell sharply in most countries. Slow growth and falling aggregate demand also led to substantial reductions in private investment in the latter part of the 1980s and the early 1990s.

The demographic basis of labour force growth and urbanization

The sharp economic downturn which started in the mid-1980s was compounded by the increasing pressure on labour markets exerted by rapid

[2] Foreign aid from the member countries of the Organization of Arab Petroleum Exporting Countries (OAPEC) fell from 4.23 per cent of OAPEC GNP in 1976 to 0.86 per cent in 1988 (World Bank, 1991, p. 241).

population growth. The region's population doubled between 1960 and 1985, to reach 182 million people, of whom approximately 27 per cent were in the labour force. The labour force has been growing at a rate of slightly over 3 per cent per year since 1975, owing to the rapid growth of the young population. The Arab countries, along with sub-Saharan Africa, have the world's highest population and labour force growth rates.

Since mortality declines were mainly due to substantial reductions in infant and child mortality which were not fully offset by a decline in birth rates, they translated into rapid growth in the young adult population with a 15-to-20 year lag. Between 1960 and 1985, the cohort aged 15 to 24 grew much faster than the rest of the population, resulting in a rapid expansion in the number of first-time jobseekers (Shaban et al., 1994). Over the coming two decades, demographic pressures on labour markets are expected to subside somewhat in countries that have already achieved substantial reductions in fertility, such as Egypt, Lebanon, Morocco and Tunisia. In contrast, Iraq, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic and Yemen will continue to have growth rates in their youth populations in excess of 3 per cent per year.

Population trends translate into changes in the economically active population through labour force participation rates. The participation rates among men aged 15-64 are generally in the range of 70 to 80 per cent, and they appear to have declined in the late 1970s and early 1980s, mostly because of increasing secondary-school enrolment rates among young adults and earlier retirement, as a larger proportion of the work force became eligible for retirement benefits. In the GCC countries, participation rates among nationals are significantly lower than those of other countries in the region, partly reflecting early retirement in response to generous social security schemes. Female labour force participation rates are exceptionally low in Arab countries but have been rising rapidly over the past two decades. The increase is strongly correlated with higher educational attainment and the availability of government employment for educated women. Thus their increased participation is concentrated among young educated women, a group that has come to expect formal sector employment, often in the public sector, and is now disproportionately represented among the unemployed.

The opposing trends in the participation rates of men and women over the past two decades result in no clear trend in the overall participation rate for the working-age population across the region. Labour force trends are driven primarily by the growth of the young adult population, which will continue to fuel labour force growth in the coming decades. The predominance of unemployment among young people and first-time jobseekers is primarily a reflection of these demographic trends, compounded by the recessionary conditions experienced in the region since the mid-1980s.

The spatial distribution of a rapidly growing population across rural and urban areas has important implications for labour markets. More than 50 per cent of the Arab population will live and work in urban centres by the end of this century. Indeed, the only Arab countries which are still predominantly rural are Oman, Sudan and Yemen. Although the pace of urbanization had been rapid since the Second World War, it seemed to slow down somewhat in three labour-exporting countries (Egypt, Sudan, the Syrian Arab Republic) during the oil boom period. In Egypt the proportion of urban population increased by a mere 0.4 per cent over the decade 1975-85 (from 43.5 to 43.9 per cent). This is the slowest increase in any decade since the beginning of the twentieth – and possibly the nineteenth – century; the urban share of Egypt's total population was 19, 21, 26, 28, 33 and 37 per cent in the years 1907, 1917, 1927, 1937, 1947 and 1960, respectively (see Abdel-Fadil, 1975, p, 210, table VI-1). Similarly, the differential between the growth rates of urban and rural population narrowed in Sudan and the Syrian Arab Republic over the period 1975-85. The growth differential between urban and rural areas started increasing again in these three countries during the recessionary period starting in 1985. The increased pace of urbanization in the late 1980s was reinforced by the disproportionate attraction of urban centres for the migrants returning to Jordan, Sudan and Yemen, following the Gulf War.

The slowdown of urbanization in the boom decade and its recent increase correspond to the rapid outflow of migrants to the Gulf over the period 1975-85 and the decline in that migration in the latter half of the 1980s. This suggests that intra-regional migration operated as an approximate substitute for rural-urban migration in labour-exporting countries to the extent that rural migrants headed directly abroad instead of seeking local urban employment and urban workers migrated abroad as rural migrants moved into local urban centres. In any case, it is clear that changes in the pattern of urbanization have contributed to pressures on urban labour markets since the mid-1980s.

Shifts in the sectoral distribution of employment

The Dutch disease symptoms which accompanied the oil windfall in the late 1970s and early 1980s were a general increase in expenditure levels, an appreciation of the real exchange rate and a movement of resources, including labour, from the tradable (agriculture and manufacturing) sectors into the non-tradable (construction and service) sectors of the economy.

The share of agriculture in total employment declined across the board over the past several decades in the Arab countries, most rapidly in the 1970s in line with the predictions of the Dutch disease argument. Agricultural labourers were drawn into the construction and service sectors both in their own countries and within the region. Moreover, overall demand for agricultural labour declined during the oil boom; this resulted from worsening terms of trade in agricultural commodities because of appreciating currencies that cheapened the domestic price of imported agricultural goods and from government policies that kept the prices of major cereal crops artificially low to subsidize urban consumers. Agricultural price policies and increased rural wages during the oil boom period induced increasing mechanization and capital intensity in agricultural production in a number of Arab countries, an outcome which is documented in various case-studies in Tully (1990) and Richards and Martin (1983). The increased capital intensity of agriculture during the oil boom reduced the sector's ability to absorb the excess labour supply during the recessionary period of the late 1980s and early 1990s.

To understand this sectoral shift in employment it is important to realize that agriculture employed the majority of the labour force in most Arab countries in the early 1970s; by the early 1990s Sudan and Yemen were the only countries in which more than 50 per cent of the labour force was still employed in agriculture. The most dramatic decline in the importance of agricultural employment occurred in Iraq and Jordan. In Jordan the share of agriculture in total employment declined from 42 per cent in the 1960s to less than 7 per cent in the early 1990s. Just prior to the Iraqi Revolution of 1958, the share of agricultural employment in Iraq was 55 per cent; three decades later, agriculture in that country employed approximately 14 per cent of the labour force, and many were expatriate labourers.

Despite massive government efforts to promote industrialization in many countries of the region, the manufacturing sector has not fared very well. The oil windfall of the 1970s generally encouraged manufactured imports and discouraged domestic industrial production. One exception to this trend is Algeria, where there was a significant increase in manufacturing production and employment; this resulted from protectionist import-substitution policies and from the fact that much of the oil windfall of the 1970s was invested in the expansion of the manufacturing sector through state-owned enterprises (Richards and Waterbury, 1990). Substantial investment of oil revenues in the manufacturing sector was also made by Iraq and the GCC countries, particularly Saudi Arabia.

In line with the predictions of the Dutch disease argument, the construction sector boomed during the period of rising oil prices and contracted in the post-windfall period. Whether one considers employment or production, the construction boom-bust pattern is observable in Egypt, Iraq, Jordan, Morocco, the Syrian Arab Republic and Tunisia. The service sector has increased in importance practically everywhere over the past three decades. The sharpest jump in service sector employment and output occurred in the 1970s. The dramatic increase in service sector employment also reflects the rapid expansion of public sector payrolls during the oil boom. As most of the oil revenues and foreign aid accrued directly to governments, they were able sharply to increase public spending on service provision or simply on hiring large numbers of workers. While in some countries this meant increasing employment in public manufacturing enterprises (Algeria, Egypt and the Syrian Arab Republic), in most other countries it meant expanding service sector employment.

International migration within the Arab region

The windfalls following the twin oil shocks of the 1970s were a catalyst for substantially increasing migration flows into the oil-exporting countries. The labour-importing countries have fairly small national populations, of which roughly half are aged under 15 years because of high fertility rates. The adult half of the population has a low participation rate owing to generous welfare schemes and social limits on female participation, as mentioned above. The ambitious development projects of the oil-exporting countries therefore required the importation of a large number of expatriate workers. Wage differentials within the region have been the driving force for this intra-regional migration (e.g. the manufacturing wage in Egypt is less than a third of that in Kuwait). The persistence of these wage differentials suggests that administrative controls on migration are the main mechanism that rations available jobs in the oil-exporting countries.

Up to the late 1970s Arab workers dominated the migration stream, but in the 1980s the GCC countries deliberately set out to attract non-Arab Asians; the reasons were partly economic, as many non-Arab Asians accepted wages lower than the reservation wages of expatriate Arabs, and partly political, as the GCC countries became sensitive to the longer-term political implications of hosting a large number of workers from Arab countries.

By the late 1980s, the fraction of expatriate workers in the total labour force was 40 per cent in Bahrain, 45 per cent in Oman, 81 per cent in Qatar, 85 per cent in the United Arab Emirates, and 87 per cent in Kuwait. Available data suggest that at that time the total number of Egyptians working in the GCC countries was about 2 million, with another 860,000 working in Iraq. During the first half of the 1980s Jordan employed over 100,000 Egyptians as replacements for emigrating Jordanians. Galaleldin (1985) put the total stock of emigrant Sudanese at about 340,000, mostly in the Gulf states but also in Iraq and Yemen. There were an estimated 300,000 Jordanian and Palestinian migrant workers in the region towards the end of the 1980s. Yemen exported nearly 1 million workers, mostly to Kuwait and Saudi Arabia.

Most migrants from the Maghreb countries went to Europe. This migration pattern emerged after the Second World War, when European countries (notably France) needed cheap labour to accommodate the requirements of their growing economies. Nearly 1 million workers from the Maghreb sought employment in Europe during the second half of the 1980s (Labeeb, 1987). The majority of Tunisian emigrants headed to Europe (an estimated 300,000, including dependants in the mid-1980s), although over 150,000 emigrated to Arab countries (of whom 100,000 were in the Libyan Arab Jamahiriya) (Radwan et al., 1991, p. 93).

This substantial intra-regional migration had a significant impact on the labour-exporting countries. Emigration eased the pressure on labour markets in the labour-sending countries, facilitating absorption of the rapid increase in the labour force, reducing unemployment and raising real wages. Remittances were sizeable and the increasing supplies of foreign exchange contributed to rapid economic growth in the labour-exporting countries.

However, the sizeable outflow of labour rendered labour-exporting countries vulnerable to oil price fluctuations and to political developments in the labour-importing countries. The major shock caused by the Gulf crisis in 1990 forced many migrants to return home within a very short time. The Economic and Social Commission for Western Asia (ESCWA) estimated the total number of returnees at 2 million people, most of whom were nationals of Yemen (732,000), Egypt (700,000) and Jordan (300,000). Most of the returnees had been working and residing in Iraq, Kuwait or Saudi Arabia. (An estimated 41 per cent of Egyptian returnees had been in Kuwait and 59 per cent in Iraq; approximately 82 per cent of Jordanian returnees had been in Kuwait; and 92 per cent of Yemeni returnees had been in Saudi Arabia.)

The migrants' return had a profound but varying impact on the economies to which they returned. The Sudanese economy grew at a negative rate in 1990 and 1991. The economic pressure of returnees on Jordan was mitigated by the accompanying return of their savings, including severance pay, particularly after the liberation of Kuwait. Most Jordanian returnees invested their repatriated savings in small businesses (e.g. convenience shops, taxi services, bakeries), creating their own employment in the informal sector. Initially Jordan's unemployment rate increased as a result of the relatively large number of returnees, but then, as the returning migrants started investing their repatriated savings in housing and businesses, the economy witnessed a mini-boom and the rate of unemployment actually declined in 1992. In contrast, the assets of most Yemeni returnees from Saudi Arabia were effectively confiscated as they were forced to sell their shops and small businesses at a substantial discount within a very short time. Thus, Yemen had to re-absorb mostly unskilled labour without accompanying physical or financial assets. Yemenis were reluctant to return to the farm work they had sought to escape through work abroad. Though 52 per cent of returnees had been agricultural workers before migration, fewer than 4 per cent intended to return to farming. This placed a significant strain on the labour market, as the majority of Yemeni returnees remained without work for a long period after their return.

While the labour markets of all labour-exporting countries were adversely affected by the Gulf crisis of 1990/91, the longer-run effect of returning migrants on labour-exporting countries followed primarily political lines. Workers from countries that were perceived to have sided with Iraq during the crisis (Jordan, Sudan, Yemen and the Palestinians) have typically been denied entry to the GCC labour markets. Replacement workers were hired from Arab countries that were members of the alliance against Iraq, particularly Egypt, Lebanon and the Syrian Arab Republic. For example, following the expulsion of Yemeni workers during the Gulf crisis, over a million Egyptians received Saudi work permits as a reward for their Government's anti-Iraq position. Similarly, the Kuwaiti labour market attracted workers from Egypt, Lebanon and the Syrian Arab Republic to replace the Arab workers who, in the aftermath of Kuwait's liberation, had lost their jobs because of their citizenship.

The policy challenge of unemployment

There has been a significant slack in the Arab labour markets since the mid-1980s as a result of the cumulative effect of the negative aggregate shocks, the continued growth in the labour force, and the burden of indebtedness and structural reform in several countries of the region. Real wages fell substantially in response to this excess supply of labour. For example, the real wage of unskilled workers in Yemen fell 50 per cent during the 1980s. While the real wage rate in Jordan increased by 45 per cent over the period 1975-87, by 1990 it was roughly equal to its value in 1975. In the region as a whole, real wages seem to have followed a similar pattern, rising substantially in the late 1970s and early 1980s only to lose most or all of this gain in the late 1980s and early 1990s (Shaban et al., 1994). Yet the recent substantial decline in real wages has not stemmed the rapid rise in unemployment rates which started in the early 1980s. Job creation is thus one of the most pressing issues of the 1990s for Arab policy-makers.

Extent and nature of unemployment

Reducing the high incidence of unemployment is a priority, particularly since unemployment is highly correlated with poverty and contributes greatly to social and political dissent in the region. The 20th session of the General Conference of the Arab Labour Organization (ALO), held in Amman in April 1993, argued in favour of an Arab Employment Strategy aimed at reducing unemployment by implementing large-scale temporary programmes, such as employment funds and targeted training programmes.

Unemployment in the region is relatively high by the standard of developing countries as a whole. In a sample of 35 developing countries, Turnham (1993) found the unweighted average urban unemployment rate to be 9.6 per cent. In comparison, recent total unemployment rates in Algeria, Egypt, Jordan, Sudan, Tunisia and Yemen range between 10.6 per cent and 19.7 per cent (Shaban et al., 1994); unemployment rates in urban areas are usually higher than total unemployment rates in these countries. Though unemployment rates were generally quite low in the 1970s, they started increasing in the 1980s, as already mentioned. For example, according to estimates by Jordan's Ministry of Labour, the unemployment rate was 3.5 per cent in 1980, and rose steadily to 6 per cent in 1985, 8.9 per cent in 1988, 16.8 per cent in 1990, reaching 17.1 per cent in 1991. Increasing rates of unemployment since the mid-1980s are a manifestation of the recession common to the region. An exception is the low unemployment rates in the GCC countries, where unemployment is mostly frictional in nature, involving those waiting for an acceptable (and highly paid) government job.

An examination of unemployment by age group and experience substantially illuminates the problem. Unemployment in the Arab countries arises mainly from the inability of entrants into the labour force to find jobs rather than from existing workers being laid-off. In a sample of 11 Arab countries in the mid-1980s, 59 per cent of the unemployed were first-time jobseekers. Analysis of age-specific unemployment rates shows that unemployment in the cohorts aged 15-19 and 20-24 is 2.7 and 1.4 times higher, respectively, than the average unemployment rate.[3] All other age groups had lower-than-average unemployment rates. The bulk of the unemployed are young and first-time jobseekers. This suggests that any policy to reduce the rate of unemployment should aim at integrating young people into employment. It also needs to be sustainable in the long run, given the continuing increase in new labour force entrants. Temporary work programmes alone are unlikely to be effective in reducing unemployment, although they can be an effective, and possibly a desirable, welfare mechanism during a transitional period. They can become an unsustainable fiscal burden on the government and the economy if the demand for labour does not increase rapidly. Furthermore, reversing such programmes can be costly both economically and politically.

Youth unemployment in the Arab countries has a gender dimension, being more serious for women than for men. Roughly 83 per cent of unemployed women are first-time jobseekers, compared with 55 per cent of unemployed men; and a higher proportion of unemployed women are first-time jobseekers in every single Arab country making disaggregated data available. Thus the age-unemployment incidence for women is highly negative and much steeper than that for men; unemployment rates are very high for women aged 15-24 years, but drop substantially for older women. Several explanations could account for this gender aspect of unemployment. First, entry into the labour force was increasing faster for women than men in the 1980s, a time when labour force entrants generally had difficulty finding jobs. Second, the Arab female labour force is relatively young because of early withdrawal from the labour force (due to marriage or child-bearing) at an age when the incidence of unemployment would naturally have dropped. Third, employer preferences may discriminate in favour of men when jobs are scarce. Fourth, women and their families may have a cultural preference for work in sectors where employment is not expanding (for example, certain public sector or formal sector jobs). The first two hypotheses are consistent with non-discriminatory demographic and life-cycle patterns, while the latter two hypotheses are based either on employer or employee preferences. The exact contribution of each hypothesis and the validity of any of them in a specific context need to be

[3] These countries are Bahrain, Egypt, Iraq, Jordan, Kuwait, Saudi Arabia, the Syrian Arab Republic and United Arab Emirates. Available evidence from the Maghreb countries of Algeria, Morocco and Tunisia also points to much higher unemployment rates among young people.

tested, using detailed and properly designed micro-surveys of households and establishments. However, regardless of the quantitative importance of these explanations, any policy targeting youth unemployment should pay particular attention to the gender dimension of the problem.

Finally, there has been some concern about the disproportionate representation of educated people among the unemployed in the Arab countries. However, this is not a universal problem. For example, evidence from Yemen (a country with relatively high illiteracy) suggests that higher educational levels are correlated with lower unemployment rates. But it has been argued that countries with low rates of illiteracy, such as Jordan, have a greater incidence of unemployment among the highly educated, particularly university graduates (Amerah, 1990); if this were true, then one could argue that education is a consumption good which should not necessarily be subsidized by the State (Pissarides, 1992). However, analysis of disaggregated data from several Arab countries reveals that those with the highest educational levels do not suffer the highest rates of unemployment. To the extent that there is a pattern, the incidence of unemployment tends to be highest among those with intermediate educational levels. This suggests that the nature of unemployment cannot be widely used as an argument to limit the provision of university education in the Arab countries.

Public sector employment and structural adjustment

Expansion of public sector employment during recessions can be a counter-cyclical policy to reduce the unemployment resulting from negative aggregate shocks. This policy has been utilized to varying degrees by Arab countries, particularly in the first stages of the recession in the mid-1980s. However, the usefulness of this policy was limited for several reasons. First, expansion of public sector employment was constrained by the initially large size of public sector employment as a result of its significant expansion during the boom period. Second, the fiscal imbalances became unsustainable as the recession deepened and the debt crisis affected one country after another in the 1980s; a freeze on public sector hiring was an almost inevitable response. While the public sector traditionally played a counter-cyclical role in reducing the magnitude of unemployment, the structural adjustment programmes that are being implemented by various Arab countries, with the implied shedding of workers from the public sector and public enterprises, could contribute to increasing the rate of unemployment in the short-to-medium run. However, the already high rates of unemployment constrain the implementation of structural reform programmes.

Public sector employment in the Arab countries is substantial. For example, while the GCC countries profess and actually encourage free-market development, they have the largest public sectors in the region, partly because of the perceived need to provide well-paid jobs to all nationals and partly because of government provision of extensive social services. In the mid-1980s, the fraction of the national labour force employed by the public sector was 44 per cent in Bahrain, 88 per cent in Kuwait, 60 per cent in Oman, 54 per cent in Saudi Arabia and approximately 75 per cent in the United Arab Emirates. Relative to private sector jobs, government jobs typically offer nationals a sizeable salary premium, a lighter working load and shorter working hours (permitting the commonly observed moonlighting among national employees). Indeed the government sector is almost the only option that new entrants to the national labour force consider; a government job is perceived as a citizen's right. While unemployment in the GCC countries is relatively low, its recent emergence is linked to the insufficient supply of acceptable government jobs. Moreover, the government's role as the main provider of heavily subsidized social services in the GCC countries has resulted in a sizeable government service sector which employs expatriates as well as nationals (between 15 and 30 per cent of expatriate employees work for the government).

Government provision of jobs to citizens has been taken for granted in the Arab countries, regardless of the prevailing economic philosophy vis-à-vis market forces, and regardless of whether the government has a declared commitment to hiring graduates of higher educational institutions. In Egypt, the scheme of guaranteeing public sector jobs to graduates of vocational secondary schools, higher education institutes and universities has resulted in a public sector that accounts for roughly a third of total employment. A similar, but less comprehensive, programme is that of the Moroccan Government, which provides "temporary employment" in the public sector to university graduates; theoretically this is a step towards another job but, in practice, such employment often becomes permanent (Amerah, 1990, p. 45). Yet other Arab countries, which have not made such a commitment and which advocate a market-oriented development strategy, also have sizeable public sectors: roughly 23 and 45 per cent of total employment in Tunisia and Jordan, respectively, were in the public sector in the mid-1980s. Thus the public sector has emerged as the dominant employer across the region, particularly in urban areas. Moreover, while it expanded significantly during the boom period in the 1970s, it is also perceived as the employer of last resort during recessions. For example, as the Algerian economy slowed down in the second half of the 1980s to an annual GDP growth rate of merely 0.6 per cent, growth in public administration employment surged to 9.8 per cent per annum. By 1989, 56 per cent of employed workers in Algeria worked for the public sector. Another example is Jordan during the recessionary period of 1982-1988, when the public sector expanded its employment at a rate four times that of the private sector (Shaban et al., 1994).

An important implication of the relatively sizeable public sector is that it constrains the process of structural reform. Several countries of the region have already embarked on sustained stabilization and structural adjustment programmes, with varying degrees of success. Morocco and Tunisia have the longest experience and they have had the greatest success in attracting foreign direct investment and restoring growth, primarily by liberalizing trade and domestic prices and pursuing disciplined fiscal and monetary policies. Egypt has made substantial progress toward fiscal, monetary and exchange rate reform since 1991, and is now facing the difficult task of public sector reform and privatization; while external and fiscal imbalances have been nearly eliminated, growth continues to be sluggish owing in large part to the uncertain political situation and its effects on tourism and private investment. Jordan has initiated a stabilization programme but its economy suffered severe blows during and immediately after the Gulf war, which curtailed growth. Limited macroeconomic reforms were introduced in Algeria, the Syrian Arab Republic and Yemen, but more needs to be done if they are to achieve the increases in the scale and efficiency of investment necessary to absorb their rapidly growing workforces. The World Bank estimates that the share of investment in GDP in the Syrian Arab Republic and Yemen would have to double and the efficiency of investment increase by 50 per cent to achieve positive growth in GDP per capita and in employment, with a gradual rise in real wages (Diwan and Squire, 1993, p. 19). While rates of investment have been relatively high in Algeria, the efficiency of investment as measured by the incremental capital-output ratio (ICOR) has been dismal. Given the massive share of the public sector in all three economies and the extent of distortions in their productive structures, adjustment costs are likely to be very high. Without external support, the World Bank estimates that the necessary reform programmes would require short-term declines in per capita consumption of 2 per cent per annum in Yemen, 3 per cent in Algeria and 6 per cent in the Syrian Arab Republic. Unemployment rates would also rise to over 30 per cent in all three countries (Diwan and Squire, 1993, p. 23). Similar, albeit more limited, adjustment costs are expected in Egypt as it begins reducing the size of the public sector by privatizing public enterprises and reducing employment in the civil service.

Labour market regulation

Countries in the Middle East and North Africa have varied experience in regulating labour markets. In the GCC countries, the main instrument of control is that of period-specific permits for the entry and work of expatriates. By this means, the GCC countries can control the size and composition of their expatriate labour force by country of origin and skill level, and the entry of dependants. Several GCC countries have recently introduced, or are considering, specific fees either for work permits or residency permits for dependants. These instruments generally aim at maintaining the "population balance" in which the share of nationals in the total population does not fall further or even rises. Yet, given that foreign workers provide the majority of labour in productive activities, policy-makers face a difficult dilemma: there is a fundamental conflict between the population balance objective and the goals of economic growth and private sector development. Recently, various GCC countries have attempted to coordinate their regulation of foreign labour in the light of the planned free movement of labour among them in the context of greater economic integration. Kuwait, Qatar and United Arab Emirates are dealing with the foreign labour issue by means of direct legislation or regulatory action, while the efforts of Bahrain, Oman and Saudi Arabia have largely centred on the training of nationals to replace foreign labour and on subsidizing their employment in the private sector.

Labour unions in the GCC countries are either banned or relatively ineffective, and minimum wage legislation is non-existent. Expatriate workers are not entitled to retirement benefits but are usually given an end-of-service compensation, e.g. one month's salary per year of service. The State has traditionally provided health care and educational services free to all residents, including expatriates and their dependants, but there is a recent trend in the GCC countries to make many expatriate labourers and their families pay for these services as a way of reducing the budget deficits that have emerged in the past ten years. On the other hand, citizens of the GCC countries are provided generous subsidies in the form of education, health care, housing, etc., effectively redistributing oil wealth from the State to the citizens. Moreover the GCC countries have instituted ample social security and retirement schemes for the benefit of their citizens, and this encourages early withdrawal from the labour force.[4]

It seems that the North African countries, including Egypt, engage in greater labour market regulation than do the Asian Arab countries. For example, Jordan does not have a legislated minimum wage and collective bargaining is rare; the hiring and firing decisions of private firms are not restrained by legislation. By contrast, in most Maghreb countries (Algeria, Morocco and Tunisia) and Egypt, where labour unions are effective players in collective bargaining, there is a legislated minimum wage (even though its effective application is disputed) and private firms face severe restrictions on firing workers without substantial cause.

Conclusion

Throughout the Arab region, policy-makers are faced with the problems of high unemployment rates, fiscal deficits and sluggish economic activity. This article has explained the high rates of unemployment and the exceptional size of the public sector in terms of the dynamic forces of high population growth and the related demographic transition, and the oil windfalls which permitted substantial expansion of the role and size of the public sector throughout the region and caused sectoral shifts in employment and production (as predicted by the Dutch disease argument). Intra-regional migration from relatively populous oil-importing countries to oil-exporting

[4] For example, Hosni and Al-Qudsi (1986) estimate that for each dollar an employed Kuwaiti citizen earns, the Government provides 2.5 dollars in benefits and subsidies.

countries constituted a powerful transmission mechanism for shocks and fluctuations in economic activity. The changes that occurred during the oil boom proved to be a serious impediment to subsequent economic adjustment in the 1980s. While real wages fell substantially in the past decade, the expected accompanying expansion in employment was not forthcoming. High population growth rates and the population's spatial mobility have subjected urban labour markets to substantial pressures which were masked during the boom period but could no longer be ignored during recession. Expansionary government policies during the boom were not easily reversed during the recession, and thus became responsible for sizeable fiscal deficits and excessive public sector employment. In addition, structural adjustment programmes that are implemented to reduce macroeconomic imbalances and entail the shedding of redundant public sector workers are currently contributing to increasing rates of unemployment.

The region's unemployment problem is markedly evident in the limited absorption of new entrants into the labour force. Given high levels of indebtedness, budget deficits and the large share of the public sector in total employment, short-run fixes such as the excessive recruitment of young workers by the public sector are no longer available to policy-makers. Urban labour markets will be facing even greater pressure as the rate of rural-urban migration increases with the slowdown in emigration.

Given the small size of the formal private sector in many of these countries, it is unlikely to grow sufficiently to absorb the large number of new entrants. Moreover, agriculture is unlikely to play a major role in labour absorption; at best, it can be expected to maintain its current share of employment given an "appropriate" policy mix. Thus, the bulk of labour absorption in the short and medium terms will have to occur primarily in the informal sector, which currently accounts for the bulk of private non-agricultural employment in the region. Indeed, the informal sector has been operating as a residual absorber of labour.

On the regional level, migration has closely integrated the Arab economies. Yet, despite the substantial movement of people within the region, labour mobility is not free and is still subject to variations in the political environment. The only exception to this is the recently established free labour mobility for nationals of the GCC countries in the context of an economic community among the member countries; but this affects a very small fraction of the total regional labour force. Moreover, the GCC countries increased restrictions on the movement of other Arab nationals following the Gulf War of 1990-91. Increased limitation of intra-regional labour mobility has occurred at a time when other regions of the world are moving towards economic integration and the creation of regional markets. While unconstrained labour movement in the Arab region would increase employment and aggregate welfare, its achievement is likely to be undermined by political factors. A less ambitious policy would be to create a regional labour institution that could link those seeking and those supplying labour services. The information system that it could provide would certainly be superior to reliance on relatives and friends or the limited employment agencies as sources of information, and would therefore improve the efficiency of the regional labour market and contribute to reducing unemployment. Policies that remove discriminatory practices against the informal sector can also be beneficial in increasing labour absorption. Yet the effectiveness of these policies will be significantly enhanced in an environment of high rates of labour-intensive growth.

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