High youth unemployment contributes to widespread unrest in the Middle East

Yasser Abdin

In part, the answer lies in demographics. Over the past decade, the combined labor force of Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia has grown at an average annual rate of 4.8 percent, higher than in any other region in the world (see Chart 1). In contrast to most of the world, joblessness in these six countries are educating a growing portion of their young people, ages 15 to 24, account for about 50 percent of the labor force in the region. The average unemployment rate among youth in these nations was 27 percent in 2008, higher than in any other region in the world (see Chart 2). In contrast to most of the world, joblessness in these six countries has grown at an average annual rate of 2.7 percent, faster than in any other region of the world, save Africa. The labor force growth is expected to outpace most other regions. Approximately 10 million new entrants are expected to join the labor force in the coming decade, compared with 13.6 million in the previous decade.

Demographic pressures, in other words, are not expected to let up anytime soon. There was also a serious mismatch between the skills young people possess and those that firms seek. While these Middle Eastern countries are educating a growing portion of their youth, firms regularly cite the lack of suitable skills among job applicants as a constraint to hiring, and unemployment rates are highest among the most educated. This suggests that education systems are failing to produce graduates with marketable job skills.

There is a problem of a bloated public sector, which lures job seekers with its greater job security, higher wages, and more generous benefits. The dominant role of the public sector as an employer in the region has distorted labor market outcomes and diverted resources from a potentially more dynamic private sector. Government hiring practices have typically inflated wage expectations and placed a premium on diplomas over actual skills, influencing education choices and contributing to skill mismatches.

Quick wins

How can governments deal with high unemployment? Any number of measures could have an immediate effect. Some of these steps would also bring long-term benefits.

Governments can:

- **Invest in infrastructure.** Investment in infrastructure, such as transportation, water and sanitation, and energy, has the potential to generate new jobs, even in the short run. Such levels of unemployment imply substantial social and economic costs. In part because of the paucity of job prospects at home, people have left these countries in large numbers, with the estimated number of migrant workers abroad equivalent to about 16 percent of the combined labor force present in these six countries. But workers from Egypt, Jordan, Lebanon, Morocco, Syria, to which lures job seekers with its greater job security, higher wages, and more generous benefits. The dominant role of the public sector as an employer in the region has distorted labor market outcomes and diverted resources from a potentially more dynamic private sector. Government hiring practices have typically inflated wage expectations and placed a premium on diplomas over actual skills, influencing education choices and contributing to skill mismatches.

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Based on evidence from Latin America and the Caribbean, Egypt could generate as many as 87,000 new jobs and Tunisia up to 18,000 in the short term by spending 1 percent of gross domestic product on infrastructure. To have an immediate effect, policymakers could put in motion labor-intensive infrastructure projects that are already in the pipeline. This strategy would not just provide employment for workers in the short term, but would also enhance the country’s long-term growth through the benefits of the improved infrastructure.

- **Support private-sector activity**: To encourage job creation, policymakers could give tax incentives or provide credit guarantees to small and medium-sized enterprises that are viable and labor intensive, as was done in many emerging markets and transition economies during the global financial crisis. They could also make it easier for these firms to obtain loans.

- **Scale up promising training programs**: The region offers a growing range of youth-oriented training programs, such as the Education for Employment Foundation (EEF), which currently operates in several countries in the area, including Egypt, Jordan, and Morocco. EEF works with corporations and industries to assess demand for skills and provide tailored training programs for young people. Through in-class and on-the-job training, EEF has proved successful in both skills development and job placement. Policymakers should seek to scale up and replicate such programs.

- **Invest in new training programs**: Policymakers may want to invest in new, innovative training programs, keeping in mind that it will take time to reap the benefits. They could look to the experience of Latin American countries, where programs that are demand driven, offer on-the-job training, focus on both hard and soft skill formation, and monitor performance have improved the employment prospects and earnings of their participants.

### Balancing current and future needs

When designing short-term solutions to youth unemployment, however, governments have to ensure that these policies do not hamper the long-term goals of sustainable job creation and productivity growth.

The ongoing social and political turmoil may tempt gov- ernments to hastily create unneeded public sector jobs. Such a move, which may be difficult to reverse later, would distort labor market incentives and divert resources from the private sector. And giving subsidies to the educated unemployed youth—while well intentioned and providing short-term relief—might only serve to reinforce skills mismatches for future labor market entrants if the qualification for such subsidies is based solely on diplomas and credentials.

While governments can take steps to boost employment quickly, they should also put in place comprehensive job strategies to address the underlying causes of unemployment. These strategies would aim to foster growth that benefits all segments of society, enhance skill formation, and provide adequate social protection to workers and job seekers.

To foster inclusive growth, governments in the region have a number of options. Foremost among them is creating an environment that fosters a level playing field for everyone.

People, particularly youths, should have equal opportunities to acquire a good education, compete for high-quality jobs, become entrepreneurs, access credit, and buy land. Ensuring greater equality of opportunity and broader sharing of the benefits of economic reform would lay the foundation for a sustainable improvement in living standards. Governments can also improve the business climate. Making changes to create a business environment that is more conducive to investment and competition—including cutting red tape for business start-ups, strengthening property rights legislation, and enhancing contract enforcement—would help unlock the region’s employment potential. Improving the business climate would also help move educated young workers out of the informal sector—where they have few pro- tections, usually earn low wages, and engage in low-growth-generating activities—and into the formal sector.

There are large numbers of expatriates from the region in Europe, the United States, and the six countries of the Gulf Cooperation Council, many of whom have advanced degrees and years of experience in competitive environments. Calling on the skilled diaspora and reversing brain drain would increase the supply of skilled labor, thereby helping domestic economies grow and compete globally. Returning members of the diaspora would bring with them their skills, capital, marketing know-how, and innovative ideas. They could open businesses and factories and hire from the pool of the unem- ployed. Improvements in the business environment, better governance, and better enforcement of intellectual and prop- erty rights would help bring back overseas talent, as well as tax and financial incentives.

Countries in the region have been trading far below their potential. According to recent analysis by the World Economic Forum, trade policies in Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia are among the most restrictive in the world. These countries’ tariffs—averaging approximately 12 percent—are nearly double those of emerging Asia. By liberalizing external trade and opening up domestic markets, the region could boost output growth and labor demand. Lowering tariffs, diversifying trade toward fast-growing emerging markets, and increasing intraregional trade would be steps in the right direction.

### Making education pay off

To address the root causes of skills mismatches, educators and governments can

- **Realign curricula with private-sector needs**: Policymakers can scale up initiatives that better equip students with skills and knowledge required by the private sector. One such initia- tive is Injaz, a partnership between ministries of education and the private sector that gets business leaders to teach marketable skills to high school and college students, including basic busi- ness skills, teamwork, leadership skills, and entrepreneurial thinking. Injaz was launched in Jordan in 1999, but has now spread to a dozen countries.

- **Change university admissions policies**: Universities’ admissions policies could influence skill formation at lower levels of education by making it mandatory for prospec-

tive college students to exhibit skills such as writing, critical thinking, and problem solving. Those requirements would give incentives to parents, educators, and students to go beyond rote learning at the primary and secondary level.

- **Reform public sector hiring practices and compensa-
tion policies**: Public sector hiring should place more empha- sis on skills and competition and less on paper qualifications. Governments could introduce interviews and tests that eval- uate a range of skills beyond what is currently being tested. Moreover, strengthening the link between compensation and performance and implementing merit-based promotion poli- cies would also give young people greater incentives to form the right skills (Salehi-Isfahani and Dhillon, 2008).

Any long-term jobs strategy should promote worker pro- tection while at the same time preserving labor market flexibility—a feature that is ultimately in the worker’s interest.

The region’s overly rigid labor rules (such as severe union- package agreements), while intended to protect employees, actually impede job creation in the formal sector and end up driving firms into the informal economy. Policymakers should aim to relax these regulations while preserving the right to collec- tive bargaining and providing effective social protections, including unemployment insurance, for workers and job seekers. Relaxing labor market regulations would enable the private sector to respond more flexibly to market signals and increase the employment response of other reforms, such as trade liberalization.

Much can be done to improve the currently dismal employment prospects of young people in the Middle East. Short-term actions are desirable, given the urgent need to satisfy the legitimate demands of the region’s youth. But such measures are not a substitute for a comprehensive long-term employment strategy that reorients education, improves the business climate, and dismantles the obstacles that prevent firms from hiring.

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### References


