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Article in Career Development International · December 2003

DOI: 10.1108/13620430310505331

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Salehi-Isfahani, D. (editor) *Labour and Human Capital in the Middle East: Studies of Markets and Household Behavior*, Ithaca Press in Association with the Economic Research Forum, Cairo. 2001, Readings, UK.

Most of the articles in this book were presented at the annual conference of the Economic Research Forum for the Arab countries, Iran and Turkey, held in Kuwait in September of 1996. The book has two parts. Part I surveys the performance of the labour markets for the Middle East and North Africa (MENA) region as a whole.

There are several major features of the labour markets in the MENA region as explored in the chapters in Part I. These features can be summarized as follows. First of all, high fertility rates of the recent past have led to high rates of population growth. As a result, most MENA countries experience a high labour force growth rate, which is expected to continue in the coming decades. This exacerbates the unemployment problems, especially for the new entrants in the labour market. The proportion of the unemployed who are first time job seekers is very high in the region. Low levels of education, which are lower than that of comparable middle income countries, is another major feature of the MENA labour markets. The illiteracy rate, especially of women, is very high in several MENA countries. The gender differences in human capital in the region are among the highest in the world. The third major feature is the low labour force participation rates for women; it is an average of 10% for the region. In most MENA countries, women's employment is mainly among the educated in the public sector. There are measurement and definitional problems in women's work. The fourth major feature of the region's labour markets is the existence of a large informal sector. Urban informal sector employment plays a major role in labour absorption and accounts for a sizable proportion of non-agricultural employment. The size of the formal private sector is small in most countries of the region. The fifth major feature of the MENA labour markets is the large share of public sector employment and the significant role of the state as a regulator in the labour market. Public sector employment is greater than in most developing and developed countries. The growth of the public sector is linked to oil revenues in the oil-

exporting countries. The public sector expanded during the oil boom, but the contraction was not easy during the oil bust. Many Arab governments used public employment as a means to redistribute income. In several Arab countries, the public sector was the employer of last resort for the educated. For instance, Egypt had a job guarantee program for the educated that was abolished in the 1990s. The sixth major feature of the MENA labour markets is that the markets are rigid and segmented. Segmentation may be the result of the employment policies of the government. There is evidence that in some countries the segmentation of the labour market restricted the movement of workers between the traded and non-traded sectors. This has been the cause of the difficult and costly adjustment to lower foreign exchange earnings.

These and other features of the labour markets in the MENA region are discussed and elaborated in the first four chapters of Part I. Shaban *et al.* in the first chapter give an account of the employment experience in the Arab countries in particular, while Tabatabai and Salehi-Isfahani, in the second chapter concentrate on Iran. Shaban *et al.* draw our attention to the international migration experienced in the Arab countries. Since the size of the national labour force was small, oil-exporting countries imported labour from all over the world, but mainly from the Arab countries. International migration allowed a redistribution of the labour force mostly from the rural areas of the non-oil-exporting countries with large populations to the oil-exporting countries. This process was helpful with the unemployment problems in the labour-exporting countries. In the 1990s, however, oil-exporting countries reduced their imports of labour due to the decline in oil revenues. There was return migration. Returning migrants resettled primarily in the urban areas. This process together with urban-rural migration intensified the urban unemployment problems of the non-oil-exporting Arab countries.

Tabatabai and Salehi-Isfahani in chapter two discuss that in Iran, recent high fertility rates after the revolution followed by the low fertility rates in the 1990s is expected to cause an increase in the adult working age population in the coming decades. If this is combined with improvements in human capital, it may generate high rates of economic growth. This is referred to as the 'demographic window of opportunity'. A similar process is expected to take place in Turkey.

Said, in the third chapter discusses the role of the public sector employment in the labour markets of the region. She gives an overview of the size and growth of public sector employment and remuneration over the past two decades. The share of the public sector has been high in most countries of the region. It was in excess of 50% in Algeria and Saudi Arabia. The growth of the public sector is linked to the oil revenues. Public sector expanded during the oil-boom, but the contraction

was not easy during the oil-bust. Many Arab governments used public employment as a means to redistribute income.

Karshenas in the fourth chapter concentrates on structural adjustment policies and labour force participation of women in the MENA countries. Since the early 1980s, the majority of the region countries adopted structural adjustment and stabilization policies. Such policies involved greater reliance on the market mechanism and trade liberalization. According to conventional thought, gender issues are unimportant for the success of the adjustment process especially in the MENA countries where labour shortages do not seem to be an issue. Karshenas argues that increasing female labour force participation in non-agricultural employment is crucial to the success of structural adjustment and export-oriented development programs. He finds support for his hypothesis that low female labour force participation in the MENA region is due to the lack of need in the past for women to work. He suggests that in order to attain wage competitiveness in the MENA region, greater integration of women in the labour market, greater education and training of women and the transformation of patriarchal family structures are essential.

Part II includes microeconomic studies using individual level data from the region in such areas as fertility, human capital, efficiency of the labour markets and returns to schooling. The six chapters in this part use individual level data. Recently, increased availability of the individual level data and improvements in computer technology involving greater speed and better access has led to increasing numbers of empirical studies of individual or household behavior. The individual level data used in this part are those collected primarily by statistical agents and made available to researchers only recently.

Chapters five and six explore the issues in relation to demand for schooling. Chapter five by S. Wahba explores the effects of temporary labour migration in agricultural households on gender differences in primary and secondary education. Temporary migration by one or more household members may be a way of increasing household income. The effect of such increased earnings on the household's decision to investment in education is examined by using data from rural Egypt where the gender gap in education is very high. He suggests that resource constraints may be the most important factor causing gender differences in school enrollment. When resource constraints are relaxed households increase the investment into girls schooling relative to those of boys. S. Wahba concludes that resources matter for girls' education more than for boys' education. Chapter six by Salehi-Isfahani is on the demand for schooling in Iran. He estimates reduced form equations of the demand for schooling of boys and girls in Iran. Isfahani determines the extent to which education and income of parents have an asymmetric effect on

boys' and girls' schooling. The effect of household background among rural and urban households is also compared, and it is found to be important for girls but not for boys. The coefficient of mother's education was higher than that of the father, especially for rural households. Similarly, the effect of household income was larger for rural than for urban households. Further, mother's education was more important for the schooling of girls but father's education appeared gender-neutral.

Chapter seven, by Zauari-Bouattour and Siala, is on the quality-quantity relationship of children in Tunisia. During the last decades there has been a drop in fertility and a rise in the educational level for many developed and developing countries. Tunisia was able to significantly reduce fertility and at the same time make significant progress in the educational attainment of its population. According to the new economic theory of the households due to Becker, parents determine the number of children and their human capital investments jointly by maximizing a utility function under budget and time constraints. The authors examine the determinants of fertility and child schooling with data from Tunisia. They conclude that a women's educational level, urbanization, and the household head's educational level and occupation are important variables that influence fertility and child schooling. Their results confirm the trade-off between quality and quantity of children especially in urban areas. Chapter eight is by Assaad and Tunalı on the wage formation in the construction sector in Egypt. The authors try to sort out the institutional and market determinants of wages and isolate the wage differences associated with job instability that is prevalent in the private construction sector. Workers on formal contracts have job protection and work for the government, while private sector workers do not have formal contracts. Selectivity-corrected wage equations are estimated with worker and job characteristics. Wage equation estimates show that formal worker earnings are significantly lower than that of comparable informal workers. The authors conclude that informal workers may be receiving a wage premium to compensate them for the job instability they experience.

Chapters nine and ten are concerned with returns to schooling. Chapter nine, by Tansel, is on wage equations and returns to schooling by gender in Turkey. I first examined the age and employment status profiles in the light of dualistic labour market models. I find that, contrary to the predictions of dualistic labour market models, mobility may be taking place from wage-employment to self-employment. The wage equations corrected for sector selection are estimated for the self-employed and the wage-employed. Private returns to schooling are provided for self-employed and wage-employed by gender. Highest returns are found for the university level, which explains the excess demand for this level of

education. No striking differentials in returns to schooling between men and women wage-earners were observed. Chapter ten by J. Wahba is on returns to education and regional earnings differential in Egypt. She finds that earnings inequality within regions is as important as between regions. She advances the geographical segmentation of the Egyptian labour market as a reason for the differential rate of return among regions. She also finds that a large proportion of the earnings differential is due to the differences in regional endowments of productivity-related characteristics. As in the case of Turkey, the highest returns were found for university and higher schooling.

This book represents an important contribution to the literature on labour markets in the MENA region. The second part of the book provides some noteworthy results. The impressive data sets that were previously unavailable, along with careful and comprehensive analysis, allows the authors to uncover new and interesting results. The book will be useful for those interested in the issues related to the labour markets in the MENA region. It will also serve as a benchmark for those researching subsequent developments. Practitioners will also benefit from this book due to its policy-related implications.

November, 2002
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