PART III

ON LABOR MARKETS IN THE ARAB WORLD

LABOR MARKETS IN THE FUTURE OF ARAB ECONOMIES:

THE IMPERATIVES AND IMPLICATIONS OF ECONOMIC RESTRUCTURING

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I. INTRODUCTION

The labor markets of many countries have been subjected to serious problems of adjustment following the multiple shocks that have occurred since the 1970s. These include the oil price shock, the sharp increase in interest rates, the international economic slowdown, the disruption in the financial institutions, and the debt problem of the 1980s. Many countries accumulated large external and internal debts and, when faced with contracting official aid and direct foreign investment, had no recourse but to attempt to conclude agreements with the IMF and World Bank. These agreements typically require countries to adhere to the free market paradigm: liberalize foreign trade and foreign exchange; reduce the size of the public sector; shed public employment, remove minimum wage institutions, desubsidize basic commodities, and reduce the

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budget deficit. This paper reviews recent developments in the Arab labor markets and analyzes the factors that are likely to affect their future dynamics. The paper starts by sketching current debate on the rising unemployment trend and impact of economic restructuring on labor markets, their outcomes, and the role of the state in the labor market.

Arab economies have experienced serious shocks. In the early 1970s they realized significant financial surpluses that gave rise to the "Dutch Disease" syndrome and to substantial labor movements across international boundaries. They effectuated expansionarey fiscal and monetary policies seeking, partly at least, to augment their physical and human capital. Then when the oil price collapsed in the 1980s, Arab countries saw their financial surpluses dwindle and deficits rise. Several countries signed agreements with the IMF and the World Bank pledging to restructure their economies. The Persian Gulf crisis greatly decelerated population and labor movements; slashed Arab foreign assets, and damaged the legacy of Pan-Arabism. Domestically, unemployment took a rising trend while real wages took a significant dip. The two factors contributed to a marked rise in poverty and deterioration in income distribution.

These shocks have created uncertainties for the region's labor markets and its human resources potential. The advent of restructuring and departure from the "business as usual" state of affairs tremendously adds to the uncertainty. The region's restructuring-related uncertainties can be posited by the following questions: Is there any reason to believe that economic restructuring would be marked by a short period of unemployment? What is the reasonable range of the "natural rate of unemployment" which the region's populace should come to expect in the era of restructuring? Should they sacrifice labor market related poverty and inequality at the altar of restructuring? If such sacrifices are an absolute must, the question becomes: how much poverty for how much growth? If at the end of the tunnel there is light what measures could, in the interim, be instituted in order to mitigate the negative impact of restructuring on the disadvantaged? And how long would it take for things to improve? After all, in the long run, as Keynes argued, we all die.

The uncertainty is compounded by the disquieting experiences of other countries. If one recalls the adjustment policies pursued in the 1980s in some west European economies, where in spite of relatively well-developed labor market mechanisms, double-digit rates of unemployment have persisted for a decade, then why should anyone expect anything less serious and prolonged in the developing Arab countries? Likewise, the adjustment policies of eastern and central European economies have been accompanied by mass unemployment and drastic decline in living standards and a rise in poverty (Standing, 1993; United Nations, 1993). Similarly, Latin American countries had bitter experiences with IMF-sponsored programs of adjustment over the past 10 years. Unemployment rates remained high, real wages declined, and the adjustment measures have amounted to de facto generating trade surpluses to service Latin America's massive external debt at the cost of unprecedented reductions in the level of economic activity and the standard of living of the great majority of the people of the Latin American region (Ramirez, 1993).

A. The Rise of Unemployment: Two Views

The rise in unemployment in both advanced and developing countries and the evolution of the jobless growth trend over the past three decades (HDR, 1993) suggests that there is a serious flaw in the logic and predictive power of the neoclassical theory regarding market clearing. In other words, from a position of unemployment market clearing would seem always to make the vast majority of workers (those employed) worse off. The argument would lead to the conclusion that unemployment is not the result of conditions prevailing m the labor market. The existence of unemployment may be the result, for example, of a long-run rate of interest above the general equilibrium level due to excessively pessimistic expectations on the part of investors. This "inappropriate" rate of interest would have the effect of depressing current investment and, therefore, aggregate demand, below the level consistent with full employment. In an open economy the same might occur if exporters anticipate a fall in the exchange rate and in consequence restricted current output (Weeks, 1991).

A competing set of explanations for the rising unemployment is advanced by advocates of the neoclassical model who propose that the reason lies in labor market rigidities and government interventions; that rigidities and interventions preclude labor markets from "working well." These rigidities include hiring and firing costs that reduce the ability of firms to adjust to changing economic conditions. For instance, the presence of high firing costs shields the already employed from the threat and prospects of becoming unemployed. By contrast, in a world where the employed are a majority (say 90% of the total labor force), there will be more political support for fighting unemployment when the employed are more vulnerable to it. This in turn is likely to generate complementarities between the economic sphere and the political sphere: the more flexible the labor market, the more the employed are exposed to unemployment, and the greater the political support to fight it. According to this view, labor market flexibility means that losing your job and finding a new one, if you do, are both easier (Saint-Paul, 1993).

But what does it mean to say that the labor market is not working well? As always, general characterization is difficult. The most general statement is usually spelled out in the context of a competitive general equilibrium model of the economy. In this stylized setting, the argument is that if every other market operates in the manner of competitive markets, then if the labor market also operates in this manner the economy will achieve a Pareto optimal outcome. Thus, in this framework and under these conditions it is clear what is meant by labor market working well—it is that the labor market is working like a competitive market where the price adjusts to equate supply and demand. But this benchmark of supply-demand equilibrium is fragile since in reality there is no guarantee that other markets are themselves working like classical competitive markets, and a PaTeto optimal outcome may not satisfy distributional criteria for evaluating the economic system as a whole. Furthermore, the make-believe world of self-clearing markets blessed with full employment does not even recognize the phenomenon of unemployment, let alone offer any remedies for it. Indeed, there is an intrinsic tendency in the neoclassical tradition to blame unemployment on the voluntary actions of wage earners and sometimes even dismiss the problem by treating any level of actual unemployment as the "natural" rate of unemployment, about which nothing can or should be done (Nagvi, 1993).

B. Labor Markets and Restructuring

Figure 1 schematically presents the major components of labor markets and their relationships to the production bases. The figure highlights the influence of various policy measures as perceived by the free-market paradigm on rural, formal, informal, and international labor markets and delineates their interdependencies. For example, income transfer and minimum wage policies are depicted to influence the unemployment rate and mobility in various labor markets. To remain focused, the chart does not capture the details of the full spectrum and causality of policies and sectors (e.g., education, health, demographics, etc.) that have bearing on labor market dynamics. Its purpose is to stress the links among components of the labor markets that are at the core of structural adjustment controversy as discussed below. These include the role of government policies on labor market flexibility, efficiency, and outcome.

A major role that many economists and the World Bank assign to labor market in the process of structural adjustment is the reallocation of labor among tradable and non-tradable sectors of the economy (Horton, Kanbur, & Mazumdar, 1994). Essentially, what is required is for labor to flow to the production of tradable, that is, to flow to those labor markets that serve the production of tradables. This may require reallocation across firms in the same area, across the formal / informal or covered / uncovered divide, or across regions.

In an era of adjustment, however, this transition is far from smooth. To the contrary, it is plausible to expect private sector firms and public enterprises to engage in mass layout. In these times, unemployed workers are likely to possess few useful connections and hence little information about their matches with firms.

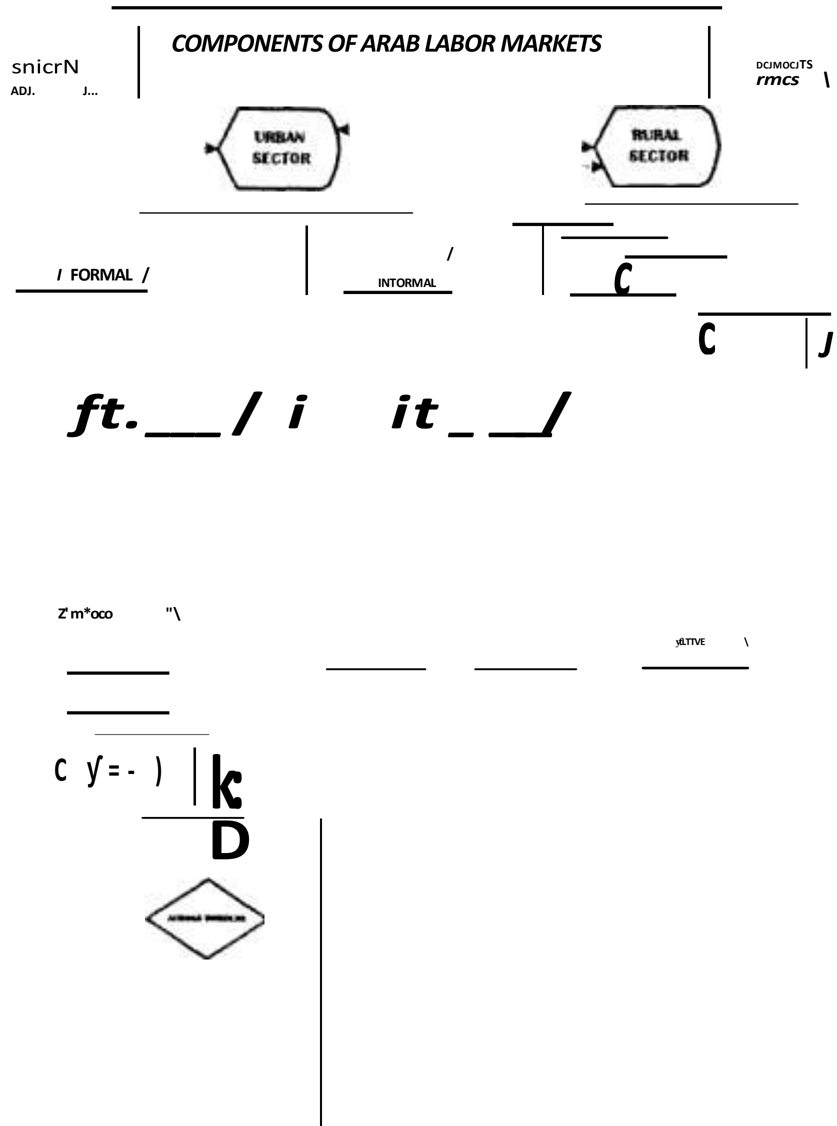
COMPONENTS OF ARAB LABOR MARKETS
URBAN SECTOR
RURAL SECTOR
FORMAL
INTORMAL

Figure 1.

H. ARAB LABOR MARKETS: AN OVERVIEW

Over the past two decades the labor markets of the Arab countries have experienced major changes within and across sovereign states. The region, with a total population of 242 millions (Figure 2), is characterized by high population and labor growth rates, strong population momentum, widespread illiteracy even among the young, traditional division of labor by gender that contributes to low female labor participation, fast movements of population within and across international boundaries, a large but declining agricultural sector, and a large public sector.

As Table 1 indicates, the overall labor participation rates (both sexes) in the Arab countries is low, hovering around 0.30 which is significantly lower than rates for developing countries in general (about 0.46). During the oil decade the region experienced challenges that were paradoxically stemming from the very source of their financial fortunes. Oil revenues, remittances, and grants/aid work somewhat at cross purposes. On the expenditure side, oil revenues provide both effective demand and available credit, factors that would not otherwise be present. On the other hand, the competitive effects associated with exchange appreciation following the oil boom offset any cost-reducing effects arising from lower imports of capital, intermediate goods, and labor. Clearly governments burdened with an overvalued real exchange rate will find it increasingly difficult to attain diversification through expansion of the traded goods sector.

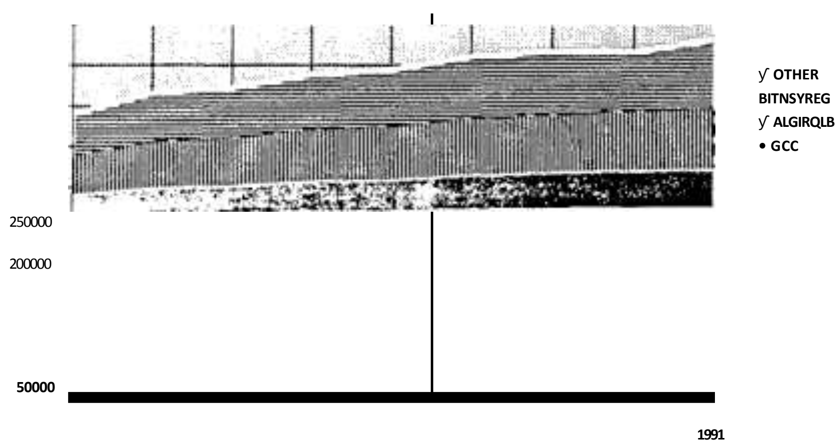

Figure 2. Population of Arab World

Table 1. Demographic and Economic Indicators of Arab Countries

Country	*Labor as % of population*	*Urban pop % of total population*	*Total fertility rate*	*Per capita CNP in 1992 U.S. $*	*External debt as % of GNP*	*Military expenditure as % of GNP*
Kuwait	39	92	3.8	14100		6.5*
Qatar	42	96	4.5			12.5
Bahrain	45	79	3.8			4.7
UAE	50	83	4.6	22020		4.8
S.Arabia	28	82	6.5	7510		14.08
Syria	29	74	6.3	1170	104	16.8
Libya	24	51	6.5			7.8
Tunisia	30	84	3.6	1720	66	2.9
Oman	28	57	6.8	6480	29	16.4
Jordan	23	11	5.8	1120	227	10.6
Iraq	24	69	5.8			16.0
Lebanon	30	73	3.2			3.5
Algeria	24	85	5	1840	70	1.6
Egypt	31	53	4.2	640	144	4.0
Morocco	33	44	4.5	1030	80	4.6
Yemen	25	47	7.3	520 (1991)	88	2.0
Sudan	29	31	6.2	370 (1985)		

Notes: * After the Gulf War expenditure allotment in Kuwait increased substantially (see WDR, 1995).

Sources: World Bank, 1994a.

The boom of the 1970s gave way to an economic bust in the 1980s and early 1990s. Real per capita GNP growth rates witnessed sharp vacillation during the bust and boom cycles as Figure 3 illustrates. Waves of international migration, demand expansion, and rising real wages gave way to declining demand, return migration, and significant rise in unemployment concurrent with a perceptible decline in real wages. The Arab region, which includes some of the wealthiest countries in the world, is estimated by the ILO to have a very large number of people below the poverty line, about 40 million people (Gaudier, 1993).

Since the beginning of the 1980s economic growth has been unable to create sufficient job opportunities for rapidly expanding labor forces and displaced persons—today more than 10 million are unemployed (Diwan & Squire, 1993). Estimates put the total labor force in the Arab world at 65 million people. This implies that the unemployment rate in the region is in the order of 15 percent (10 million unemployed relative to 65 million in the labor force). This rate is significantly higher than the average unemployment rate in many developing countries which hovers around 10 percent (Tumham, 1993). Youth unemployment, which is the most severe manifestation of unemployment,

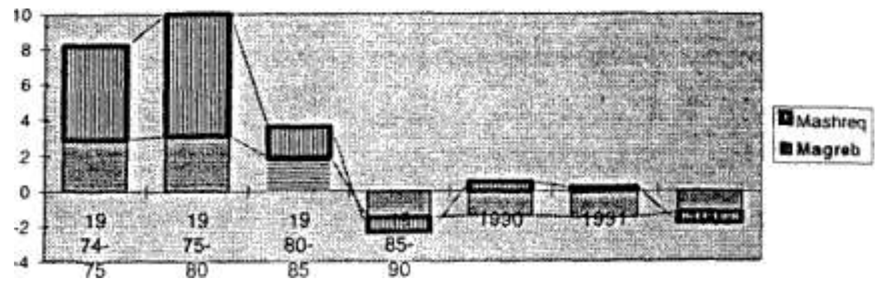

Figure 3. Per Capita Real GNP Growth

is typically four to five times higher than the rates for adult Arab workers. Further, in many Arab countries unemployment is rising and its duration increasing.

The potential of women in the Arab states remains largely unrecognized. Only 15 percent of the official labor force are women, although the statistics seriously under report their economic role, particularly in agriculture and the informal sectors (UNDP, 1991, p. 35). The low educational attainment and training capabilities of the labor force in interaction with existing institutional and organizational structures lead to thwarting the productivity of Arab workers The Arab Labor Office estimates that the average labor productivity in the Arab countries at $6,213 per worker, which is a small fraction of the productivity of advanced countries. For example, the corresponding figures for the French and Italian workers are $81,610 and $35,959 per worker respectively (Arab Labor Office/ UNDP/ILO, 1993). The weak oil market and the collapse of the financial portfolio of key Arab institution investors have negatively affected the region's growth potential. Both economic performance and development prospects have been seriously affected by the 1990 Gulf Crisis and subsequent military and political developments. The crisis has weakened regional cooperation by disturbing economic relations and ties that had developed over a lojig period among the countries of the region, particularly as a result of rapid economic growth in the major oil-exporting Arab countries since the mid-1970s (Escwa, 1992; UNDP, 1991). The remainder of this article addresses the employment/unemployment structure and analyzes the imperatives and implications of restructuring. The paper concludes with an assessment of the future outlook.

A. Employment and Wages

As of 1987 the total labor force in the Arab countries stood at 57 million. In 1990 the figure rose to nearly 65 million and projections put the likely figure

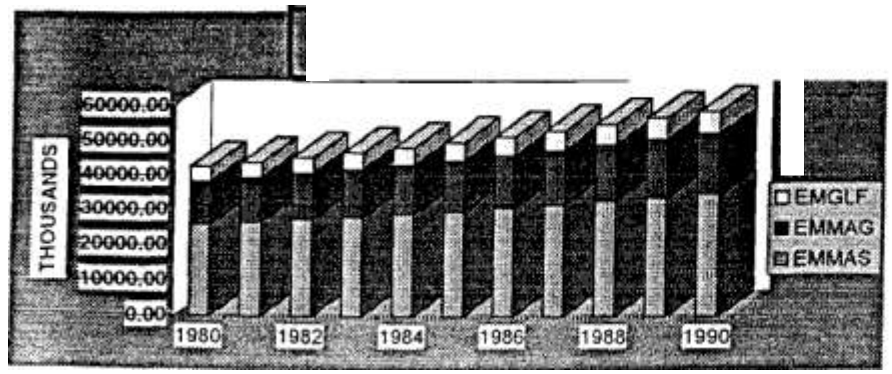

Figure 4.

at the turn of this century at 90 million workers; implying a growth rate of 3 percent per year. The distribution and growth of the Arab labor force among the Mashreq, Maghreb, and gulf countries is portrayed in Figure 4. Each year an additional two million Arab workers join, for the first time, the rank and file of the Arab work force. Estimates of the skill composition reveal that unskilled workers comprise a high proportion of the Arab labor force, 44 percent, while the semi-skilled make up 18 percent; professionals 10 percent, and semi-professional and technicians comprise 9 and 17 percent, respectively (UAER, 1988-1992).

Agriculture, while declining in importance, remains a major employer absorbing 50 percent of all Arab workers. But intercountry variations are marked (Table 2). In the Sudan and Yemen over 60 percent of the workers find employment in agriculture; in the gulf countries the ratio dwindles to under 5 percent, in Kuwait and Qatar; but 48 percent in Saudi Arabia. In Jordan the share of agriculture is a very small part of the economy since the main agricultural area, the West Bank, was occupied in 1967. The sector is estimated to employ about 8-10 percent of the labor force (Pissarides, 1993). The share of agriculture in Egypt has been decreasing steeply over time from 53 percent in 1960 to 44 percent in the late 1980s (Osman, 1992). In Iraq, which used to be predominantly an agrarian society three decades ago, agriculture currently employs only 13 percent of Iraqi workers. In Tunisia the agricultural labor force registered a decline both in absolute and relative terms. Between 1975 and 1984 the share of agricultural employment declined from 37 to 27 " percent (Radwan, Jamal, & Ghose, 1991). In Morocco the share of agriculture in total employment is 46. As of 1991 nearly 24 percent of Algeria's labor force were engaged in agriculture.

Table 2. Sectoral Distribution of Employment, 1989-1991

Country	*Agriculture*	*Industry*	*Services*
Algeria	24	12	64
Egypt	34	22	44
Kuwait	2	18	80
Iraq	13	8	79
Qatar	3	28	69
S-Arabia	48	14	37
Syria	22	36	42
Lebanon	14	27	59
Libya	18	29	53
Oman	49	22	29
Jordan	10	26	64
Morocco	46	25	29
Sudan	62	10	28

Sources: MOP-Jordan, 1987; UNDP, 1993; World Bank, 1993.

In most of the Arab countries, industrial activities absorb between 8 and 15 percent of the work force with a cluster of extractive (mining and quarrying) activities in the gulf GCC countries. According to figures compiled by the GCC secretariat, total GCC manufacturing employment amounted to about 320,000 people, approximately 5 percent of the total. Non-extraction-related industrial transformation processes have existed in several Arab countries including Egypt, Algeria, Syria, Jordan, and Iraq; but its share in total employment remains modest, ranging between 10 and 15 percent. In Algeria 12 percent of the labor force finds employment in the industrial sector.

Over time, the services sector in most Arab countries has emerged as the net gainer of employment as workers relocate from agriculture and as the youth and educated join the sector. In Algeria the service sector absorbs 26 percent of the labor force. In Egypt services absorb over 40 percent of the employed workers, in Jordan the service sector consists of 64 percent, and in Iraq, Kuwait, and Qatar the services sector absorbs more than two-thirds of the employed. This sector is also the magnet that attracts most Arab females and provides the single largest group of jobs for women in most countries, between 70 and 96 percent.

After increasing sharply in the 1970s real wages registered a declining trend in the 1980s and early 1990s with wages for unskilled workers declining more steeply than those for skilled workers (ILO, 1994). But perhaps the most severe shock has been endured by the Iraqi wage earners following the 1990 Gulf War. According to data gleaned from a purposeful small survey conducted in 1991 nominal wages after thewartooka severe plunge relative to their prewar levels and relative to the levels needed to maintain proper diet and nutrition. Monthly wages became insufficient to meet the requirements of workers; and many had to sell their assets in order to put food on the table.

Several countries of the region have instituted minimum wage laws. These include Algeria, Morocco, Tunisia, Lebanon, Syria, and Kuwait. The minimum wage is typically negotiated between the government, employers, and unions. Minimum wages are low relative to going wages in the formal and informal sectors. For instance, a survey conducted in Tunisia suggests that entrepreneurs in the informal sector in the 1980s earned from three to five times more than the minimum wage in the corresponding branch of the modern sector. Wages for skilled workers in the informal sector were 30 percent higher than the legal minimum wage, whereas those for unskilled workers were 17 percent lower (ILO, 1994). Real term minimum wages declined in most countries while evidence corroborates a small rise in other countries. For instance, during the period 1989-1992 Algeria's minimum wage rose by 8 percent; by far, much less than the increase in the cost of living index of 26 percent (World Bank, 1993a). Morocco's minimum wage for unskilled workers rose in real terms by about 9.7 percent during the period 1983-1986 while wages of the more skilled workers eroded because of the excess supply of the educated (Morrison, 1991).

In the face of rising domestic prices resulting largely from foreign exchange liberalization concurrent with the government policy of wage controls which froze wages in 1984, the real wages in Tunisia underwent a perceptible decline (Ghorbal, Amoos, & Shaban, 1989). In Syria the administratively set wages lagged behind the increase in consumer prices; leading to a deterioration in real wages over time. For instance, during the period 1970-1987 the consumer price index rose by a factor of 12 whereas nominal wages were allowed to rise fivefold. The government wage policy favored the institution of a minimum wage in order to protect the well-being of the poor class in the society. Like the experiences of other countries, this policy caused a wage compression that became worse over time (Daleelah, 1989).

B. Unemployment

High unemployment rates probably have emerged as one of the most pressing challenges to policymakers since the collapse of oil revenues in the early 1980s. Recent unemployment rates in the region are generally in the double-digit figures (Table 3). Several factors contributed to the rising trend. First, historically high population growth and momentum produced with a lag, large sizes of cohorts who simultaneously sought jobs and, in the process, strained the labor markets. The slow but steadily rising trend of females seeking employment in the services sector created a pool of labor that is more educated than men. Public and private sector employers were willing to tap the emerging pool particularly to do jobs that are culturally considered fit for women, that is, teaching, nursing, and social and clerical work. Second, the big push in education has resulted in the graduation of educated cohorts who traditionally

Table 3. Unemployment in Arab Countries

Country	*Total unemployment rate 1979-1985*	*Total unemployment rate 1990-1992*	*Age group*	*Youth unemployment as % of total unemployment*
Egypt	5.7	15	20-24	56
Jordan	9.4	25	15-24	55
Lebanon	n.a.	25		
Sudan	6.0a.	10.5	15-24	60
Syria	6.3	20	15-25	66
Yemen	6.2	26		
Algeria	16.4	21.4	20-24	41
Morocco	13	15		
Tunisia	12.9	15	15-25	54

Sources: Arab Labor Office, 1993a, 1993b; Diwan & Squire, 1992; World Bank 1993, Morrisoa 1991.

sought their first jobs in the public sector. The shrink in the sector's ability to absorb increasing waves of educated cohorts, because of mounting budget deficits, has left many educated individuals jobless.

Third, the "education for migration" policies which several countries followed during the past few decades were obstructed by the prolonged recessions in the traditional countries of destination including Europe, in the case of Maghreb workers, and the gulf in the case of Mashreq workers. Fourth, industrialization in the Arab countries, whether state-promoted or left primarily to market forces, proved unable to absorb but a relatively small fraction of the labor supply. Fifth, both rural-to-urban migration and international migration have led many agricultural workers and landlords to desert their land. Prolonged absence of many of these led to the neglect of farming and to the deterioration of agricultural land and infrastructure. Government intervention in agricultural markets to set prices paid to farmers and to encourage industrialization often had a built-in bias against the agricultural sector. When coupled with overvalued exchange rates, these policies have made food importation a much more lucrative business than local agribusiness. The out-migration of labor from agricultue coupled with misguided government policies have negatively affected the ability of the agricultural sector to provide sustainable employment opportunities. Finally, since the mid-1970s many Arab countries have artificially kept interest rates low in order to facilitate the acquisition of capital for import-substitution strategies (Handoussa & Potter, 1991). Real interest rates were negative given the high expected and actual inflation rates. Whether resulting from administrative measures or high inflation (or both), the low real interest rates

had a detrimental effect on labor absorption as they had encouraged the
adoption of highly capital-intensive techniques (Handoussa & Potter, 1991).

Not all unemployment is open, a sizable "some" is disguised. A prominent argument holds that much of the "disguised" and open unemployment in the cities is the result of the job guarantee and other formal-sector rigidities, which create a queue of (usually young) job-seekers waiting for a government post. First-time job-seekers are disproportionately represented among the unemployed. Data from a sample of 11 countries reveal that, on average, 59 percent of the unemployed are first-time job-seekers (ILO, 1994). Open unemployment is concentrated among young men, especially those with some education. For example, in Jordan in 1979 some 55 percent of the total unemployed were between the ages of 15 and 24; perhaps 17 percent of job-seekers in this age group were unemployed; and about 70 percent of these unemployed young men had at least a primary education (World Bank, 1986). The data from the 1991 census show that the unemployment rate had risen to 25 percent, up from 9 percent in 1979. Although part of the increase may be due to improved measurement techniques, the breakdown shows that the unemployed are mostly young, unskilled, and uneducated. One-half the unemployed are aged 15-24, and most of these (one-third of all unemployed) are between 20 and 24 years of age. Of the unemployed, half have never worked, 75 percent are male, and, while almost half have less than secondary education, almost 30 percent have at least a middle diploma (community college). Unemployment remains high, 13.9 percent, until age 30 then falls to 5 or 6 percent in the prime working years until age 44 (Stevenson, 1992).

In spite of a relatively low participation rate (25%), Algeria's unemployment rate has been rising rapidly from 10 percent in 1985 to 18 percent in 1989 and to 21 percent in 1991. The unemployment problem is confined almost exclusively to the dropouts who have no training or skills. About 800,000 youth were unemployed, comprising two-thirds of the total stock of the unemployed; 58 percetn of those aged 16-19 were unemployed, as were 41 percent of those aged 20-24. Most of these youth have been unemployed for over two years. The real source of the problem is the uninterrupted decline in economic performance, measured by GDP per capita. Since 1984 Algeria's GDP per capita is at a level equivalent to that of 15 years ago (World Bank, 1993a). In Morocco the share of 15 to 25 year olds in total unemployment rose from 50 percent in 1971 to 70 percent in 1976. Fiscal retrenchment and economic reform led, in the mid-1980s, to measures to limit school enrollments. By 1984 the unemployment rate had risen to 13 percent from 11 percent two years before, and youth unemployment was 20 percent. Furthermore, young unemployed people tended to be better qualified than the overall labor force (World Bank, 1986). During the period 1982-1986 urban unemployment rose 12.2 percent to reach 15.6 percent in 1986. The increase in unemployment came from the pressure of high demands for jobs rather than from a stagnant supply. Employment in construction and public works fell because of public investment expenditure (Morrison, 1991).

Fiscal, trade, and public enterprise reforms have led to labor shedding in the public sector of Tunisia and the unemployment rate in 1990 stood at 16 percent. This represents a significant increase in the unemployment rate relative to its levels during the period 1972-1983 where it averaged 13 percent (Ghorbal, Amoos, & Shaban, 1989). The incidence of unemployment is particularly high among Tunisian youth; 54 percent for young people under the age of 25 (Bel Haji, 1994). In 1980 Egyptians "without work experience" were six to eight times as likely to be unemployed as those "with work experience" (Hansen, 1985, p. 18). Over time the situation worsened. As evidenced, the 1986 census found that young people aged 15-24 comprised 31 percent of the labor force. Overall, the unemployment rate in Egypt according to that year's census was 12 percent, and 24 percent for women. For young people, it was two to three times higher—30.5 percent for the age group 12-24 and 37.3 percent for 20-24 year olds. For women, the registered unemployment rate was 55.2 percent for those 15-24 years of age and 55.9 percent for those 20-24 years of age. It is important that in Egypt, as in other countries, the data incorporate measurement error. One problem that is particularly severe in Egypt is that measured unemployment among the educated is probably overstated. The educated unemployed had, at the time of the 1986 census, an incentive to register because government employment guarantees for secondary and post-secondary graduates.

In the occupied Palestinian territories the unemployment rate is quite high. In 1990 it was estimated at 19.8 percent in the West Bank and 30.9 percent in Gaza. In 1991 the sudden return of Palestinian workers from the gulf pushed the unemployment rate even higher to 42.7 in the occupied territories These high rates are computed by adopting a definition of "unemployment" that does not conform to that of the ILO. For instance, the definition incorporates the very large number of Palestinian detainees and prisoners in Israeli jails (Abu-Shokor, 1993).

Demand forces, however, obviously also contribute to unemployment. In Morocco, for example, both the public and private formal sectors are quite small relative to the total size of the labor market. Unions are weak, and the World Bank noted approvingly the country's "flexible labor market." Yet not only is youth unemployment widespread, but underemployment is also common. In 1981 nearly one-sixth of the urban "employed" were working less than 40 hours per week, and the pool of the unemployed is growing at 18 percent per year (USAID, 1986). The World Bank also noted that most temporary workers worked much less than full time, earning low incomes despite finding jobs with relatively good wage rates per day. The bank's speculation that such employment is "voluntary" is redolent with the current "blaming the victim" fashion. It is much more likely that the underlying cause of such developments are the continued influx of rural migrants, the high and rising incremental capital output ratios, and the sluggish growth of the economy as a whole.

III. LABOR MARKETS AND ECONOMIC REFORM

This section addresses the imperatives and implications of structural adjustments in the Arab countries. We start by reviewing the forces that enable the state to dominate activities in the Arab world. Since reform is likely to create costs and benefits to different groups (the state, power groups, and laborers) we discuss briefly the salient features of the economic power structure in Arab countries followed by an examination of the role of labor markets in economic reform and the implications of reform to labor markets. Finally, since Arab countries are accumulating an increasing foreign debt and seeking to rely on foreign sources of fund, we discuss the ramifications of foreign investments to Arab labor markets. The section concludes with some remarks about contemporaneous policies in advanced and newly industrialized countries that are pertinent to the activist role of government.

A. Economic Domination of the State

Forces that enabled the state to ascend to a high activist and interventionist mode are varied and comprise economic, institutional, cultural, and political factors. A few decades ago there was the need to have a "central command and control" apparatus that could oversee, design, and implement country economic and social development plans. There was also the conflict situation: the state had assumed its vital role in part because of the "state of war" with Israel. Defense expenditure and associated production and imports of military equipment were seen as vital for the ultimate liberation and development of the Arab world in general, and the need to mobilize for war against Israel became a strong force behind the state's domination of political and economic life (Aly, 1992).

Conflict situations however were often internal rather than external. Many Arab countries experience internal conflicts prompted by the diverse allegiance along religious, ethnic, and tribal grounds. For instance, a particular tension exists between the interests of the state (whose modern powers and limits were largely imposed by Western nations at the end of the colonial era) and the interests of Islam as a world system of thought and action which long predates the current territorial divisions of the Arab world (Findlay, 1994).

Structurally and institutionally the Arab countries did not have the infrastructure necessary for the evolution of a privately provided supply of a complex set of social, educational, and health programs. The financial sector was in a state of repression, per capita incomes were low, and whatever production facilities existed were clustered in the hands of a small number of -family or tribal-owned enterprises. The majority of firms were small, measured by employment and turnover, were owner-managed with limited access to long-term finance, and had a restricted risk-spreading capacity. Competition was contrived and monopoly or oligopoly along the tribal or family business was the norm.

Demographically, virtually all Arab countries have been in the second stage of their demographic transition, with falling death rates due to improved health standards concomitant with stubbornly high fertility rates. Population growth averages about 3.1 percent; the highest in the world. In one generation the urban population has mushroomed from 32 million to more than 130 million (World Bank, 1994a). The high population growth rates and momentum put tremendous pressure on the state to provide basic medical and education supplies and facilities, and support employment opportunities.

B. The State and Power Groups

In Arab countries the state is the owner of marketable natural assets (oil, natural gas, phosphates, etc.), which gives it tremendous economic and political power over the private sector and citizens at large, and allows it to build large bureaucratic infrastructures to provide services to citizens. The state is also the employer of the army rank and file, police, and special security units. In addition, the state is the regulator of a very long list of economic activities. In the labor market such regulations include labor laws, social security regulations, and minimum wage laws.

As in many other developing countries the state in the Arab countries has used the public sector for its own political purposes (such as patronage, power base, income redistribution, etc.). Bureaucracies have been, and continue to be, busy with an enormous amount of unproductive paperwork which retards the efficient management of government and private business. They are often heavily penetrated by seriously corrupt vested interests working for their own private purposes. The result is the maintenance of an economically and politically powerful organization that resists any change that reduces its power or membership (Penrose, 1993).

Outside the state bureaucracy the dominant power and economic groups have historically been landowners, many of whom are also tribal leaders and merchants. The concentration of landholding has been marked, such that several hundred families owned the bulk of the land. In Egypt in 1952 the top 1 percent owned around 72 percent of the land; in Syria 2.5 percent owned 75 percent and in Iraq 2.8 percent owned 70 percent. The great majority of the assembly members were from these families, their power deriving from control over their tenants and sharecroppers. They had no interest in abandoning the institutions that buttressed their power, enabled them to block land reform, and to which they were elected and re-elected by a captive peasantry (Pool, 1993).

One direct result of oil revenues has been that the rich in the Arab world became much richer much faster than the poor became less poor. The gap between the richest and poorest Arab countries has widened substantially in recent decades—between the oil producers and the rest. The poor countries do not have the oil income, and the size and growth rate of their population have been higher. The difference in GNP per capita was 2:1 in favor of oil producers in 1960, but 9:1 in 1987. GNP per capita varied from $480 in Sudan to $15,770 in the Unite Arab Emirates (UNDP, 1991). In certain instances within some oil producing countries the ratio between the income of the low-income groups and that of the extremely high-income groups is about 1:20,000. Thus, the members of the high-wealth and high-income groups are able, because of their favored positions, to amass fortunes that are distinctly in excess of the sizes to which their innate capabilities and talents entitle them (Sayigh, 1980).

By contrast, Arab workers throughout modern history did not constitute a distinguishable social group, and had not played any significant role in political or economic life. Through most of the current century wage workers employed in large enterprises have constituted only a minority of the urban workers and an even smaller proportion of the population as a whole, whose great majority has until recently consisted of peasants. Moreover, labor unions and workers' movements in the Middle East seemed to play a less significant and autonomous role in their countries' political and economic life than their counterparts in the advanced countries, including their neighbor Israel where the labor movement and the Histadrut sector played a key role in implementing economic and social programs (Lockman, 1994; Murphy, 1994).

Further, organized labor has been destroyed as a political force in several countries following the harvesting of minerals particularly in the gulf. The combination of the movement of citizen laborers into white-collar jobs in government, the influx of foreign labor into these countries, and the expansion of the states' abilities to police and buy off local labor unrest has removed indigenous labor issues from the political agenda. The unions that now exist are officially sponsored by the states. The social basis for an autonomous, indigenous, organized labor movement has disappeared (Gause, 1994).

C. Economic Reform

Increasing international pressure due to mounting debt and rising budget deficits have driven many Arab governments to address pressing economic questions and put in place economic reform programs. As noted earlier, economic, political, and demographic forces have traditionally favored a strong role for the state in the Arab region. With restructuring underway there is a continuing debate and uncertainty regarding the role of the state in the restructuring, once the process is completed. Restructuring entails—among other things—a smaller role for the state in economic activity, retrenched public sector employment, and liberalization of wages. The conventional adjustment programs are concerned with two dimensions of labor market flexibility; one is the wage flexibility and the other refers to restrictions on hiring and firing of labor. If the labor market is rigid and wages are inflexible then the government is unable to trim down public sector employment or reduce the wage bill. Government expenditure cuts would then have to fall primarily on investment with adverse effects on long-term growth.

What role has public sector employment policy played under these circumstances? Some policies have created "wrong" signals and contributed to "productivity anemia" through the misalignment beween wages and effort, the subsidization of socially unproductive education, and the institution of guaranteed life-long public employment schemes that reduce labor market flexibility. However the high unemployment rates and protraction of unemployment spells can not be wholly due to the failure of public sector employment and education policies. Even the best of policies could fail to achieve full employment if available resources and labor demand fall short of the rapidly growing supply. Some evidence even suggests that public sector employment, rather than competing away labor from the traded goods sectors or the private sector during the boom period, acted more as a residual absorber of excess labor. In Egypt, for instance, rapid labor growth was partly absorbed in the state bureaucracy. The expansion of public employment was one means of alleviating the political and social consequences of fast population growth: open unemployment was avoided or contained by creating a large mass of underemployed and, necessarily, frustrated and inefficient public employees and officials (Penrose, 1993).

Indeed it is not clear how conventional economic restructuring would help restore full employment (or significantly reduce unemployment) if a major cause of the problem is the high pace of population growth especially in urban areas and the inability of industrial and services sectors to cope with the fast growth in labor supply. The high population growth led to high labor supply growth, which, concomitant with the shift away of employment from agricultural to urban manufacturing and service sectors, meant that the nonagricultural labor force was growing at 5 to 6 percent per annum in most countries of the region. To accommodate this high labor supply growth urban manufacturing and service sectors must grow at high rates of 7 to 8 percent, assuming labor productivity is in the vicinity of 1 to 2 percent. However, the actual growth record of the industrial and services sectors was, during the 1980s, in the neighborhood of 1 to 2 percent; well below that required to absorb the nonagricultural labor supply growth. The low growth performance of these sectors was partly responsible for the rise in open unemployment particularly among the youth (Stevenson & Adams, 1992; Al-Qudsi, Shaban, & Assad, 1993; Karshenas, 1994).

While several Arab countries have legislated minimum wage policies, these are low in relation to domestic industrial wage levels and have not kept up with inflation rates. Not only that but several countries have experienced real wage decline, and public sector wages have experienced stagnation and compression as our discussion earlier indicated. The implication is that elimination of minimum wages is not likely to reduce unemployment. In fact in the case of some countries such as Morocco there is evidence to suggest that the real wage decline, through lowering the growth of final demand, has perhaps exerted a negative effect on growth of the segment of industrial sector catering for the domestic market. From 1980 to 1990 wages declined 32 percent while productivity fell 45 percent. Real GDP declined in both 1992 and 1993, while current account deficit in 1993 was more than 2.5 times what it was in 1990 (Taub, 1995; Karshenas, 1994). The ability of Arab countries to reverse historical trends by focusing on tradables and expanding employment in export-led activities will depend to a large extent on the degree of human capital and modern managerial skills of Arab workers and their management. Evidence suggests that workers in the Arab countries lack the education, training, and skills necessary for competing internationally (Al-Qudsi, Shaban, & Assad, 1993). It is these very elements that are requisite for long-term sustainable growth which are likely to suffer most because of the economic reform and public sector retrenchment.

D. Resistance to Reform

Arab countries that pursued programs of economic reform encountered wide popular protest often because the programs failed to provide sufficient tangible benefits for the majority of urban population and were seen to create unreasonable social and economic deprivation and inequality. The root of the problem was that the transformation was extraneously imposed with little preparation and lack of sense of urgency for change, particularly since the "leaders of change" were not new leaders or "change champions." The system failed to create a vision that clarified the direction in which the economies and societies needed to move; the leadership and elite class failed to demonstrate behavior consistent with the demands of reform. Instead the system created a sense that the poor and disadvantaged will bear the brunt of the economic and social cost of reform; therefore violating a basic rule of successful transformation programs: Transformation is impossible unless grassroots are willing to help, often to the point of making short-term sacrifices. Workers will not make sacrifices, even if they were unhappy with the status quo, unless they believe that useful change is possible (Kotter, 1995). In the majority of the cases, the street demonstrations or riots involved predominantly unemployed and casually-employed young men, usually from the shanty towns and urban slums; the strikes involved workers in the private and public sector, and marches and petitions involved the more organized groups including trade unions and professional associations and their members, as well as students. In virtually all cases the strikes and riots carry a substantial social and economic cost that include work stoppage, arrests, and killings which increase social tension and class conflict (Seddon, 1993).

To attenuate labor opposition, the state has sought to adopt a phased approach; as in the case of Egypt which targeted smaller plants outside Cairo where labor unions are weakest. These measures, however, fail to address the underlying reasons behind labor opposition to liberalization, which revolve around the disparities in working hours and conditions, health and accident insurance, pensions, vacation, and job security between the public and private sectors. Such disparities may result by law or evasion of laws by private concerns. This suggests that ultimately if the state wants to remove itself from the productive sphere without suffering a substantial loss of public support, it will need to expand its activities in the realm of regulation (Posusney, 1992). Resistance to reform comes from state bureaucracy as well. Under structural reform, the Arab state has not found substitutes for political interests, therefore public regimes have resisted moves to cut their power structure that jeopardize their survival. As evidenced, after nearly 20 years of *infitah* in Egypt and Tunisia, the public sector still generates 65 percent and 60 percent, respectively, of manufacturing value-added (Harik, 1992).

In some cases the implementation of privatization and economic reform produced drastic and almost immediate inequality. In Iraq, for example, the ownership of the newly privatized enterprises was highly concentrated. Thirteen of the 70 factories that were privatized were bought by one family. Not counting agricultural projects, this same family owned 36 of the very largest industries and over 45 million square meters of land. The cost of the economic reform was clearly borne by fixed-income groups, consumers, and laborers, who fondly recalled the long years of war with Iran as times of certainty and plenty (Chaudhry, 1992).

While these negative distribution effects could have been minimized if reform and privatization gave preferences to smaller investors and workers (i.e., the cooperative route); this route raises a number of problems in the Arab world. Many of the likely privatization candidates are capital-intensive projects, which means that the workers could not afford to purchase the enterprise unless the selling price was significantly below market value. There is also a problem over the national identity of the workers. Clearly, if expatriates predominate as in the gulf, selling to them would be unacceptable, especially at "give-away" prices. Equally, the predominance of minorities in the work force could inhibit such a route (Stevens, 1993).

E. Foreign Investments and Labor Markets

Some advance the argument that in an era of increasing financial austerity and capital scarcity Arab countries must attract foreign investment. The investment climate in Arab countries is vitiated by macroeconomic distortions.

Substantial budget deficits, overvalued exchange rates, and negative real interest rates are typical of such distortions. In several countries including Algeria, Egypt, Sudan, Syria, and Yemen public investments are as high as 70 percent or more of total investments (El-Naggar, 1990). Attracting foreign investment requires correcting macroeconomic distortions. However, from the labor market perspective foreign investment may create unfavorable conditions. First, foreign investors will seek favorable tax treatments that will reduce the government revenue, at least in the short run, and decrease governments' ability to absorb labor directly in its bureaucracy or indirectly through joint investment ventures. Secondly, technological transfer that typically accompanies foreign investment is labor-saving and knowledge-based such that little employment is created by foreign investment. Third, foreign firms may distort local wage levels and absorb the better-educated elements of the labor force, disadvantaging indigenous enterprises (Joffe, 1993).

Foreign investment in Arab countries has been meager and very slow to grow. According to the *World Investment Report* the total amount of investment was concentrated in Egypt, Tunisia, and Saudi Arabia. Investment in the gulf countries is predominantly in oil and natural gas, upstream and downstream activities with very low labor-absorption prospects. The total flow of foreign investment is small—well below $5 billion, with Egypt attracting $2.12 billion. The smallness of foreign investment in Arab countries reflects lack of confidence on the supply side—institutional investors. The supply is well below the potential demand of over $16 billion annually. The potential demand, in turn, is derived on the assumption that foreign investment would employ nearly 10 percent of Arab labor force (approximately 6 million workers) in activities involving transnational corporations (TC). It is based on the *WIR* data indicating that the 1993 foreign investment flow of SI95 billion generated 75 million paid employment in nonagricultural activities (United Nations, 1994).

Given the sociopolitical structure in the Arab countries what can be done to attract foreign investment? Undemocratic regimes, wars and revolutions, economic crises in oil and debt, the rise of religious movements, adn conflict with Israel all produce high uncertainty which hardly induces much confidence in potential foreign investors. This raises the question of how much it really matters whether or not governments try actively to encourage foreign investment. However, even if foreign investment were forthcoming in a timely manner, it must be recalled that the Arab countries that had experienced a decade of financial abundance used capital inefficiently; they were unable to grow and diversify sufficiently using available funds. An acceptable measure of how well a country utilizes its resources is the ICOR (incremental capital-output ratio). During the 1980s the region had an ICOR of 5, which means that each additional unit of output requires twice as much investments as in the newly industrialized nations, which require 2.5 units of new capital (Clawson, 1993).

All said, is reform needed? The answer is in the affirmative but reform must be comprehensive: sociopolitical as well as economic. Corruption and rent-seeking activities must somehow be eliminated or minimized and be replaced by a system that rewards individuals strictly according to their efforts and productivity. Education and training must emerge as the state's, as well as the individual's, prime objectives. Competition among world-class countries in tradables cannot be sustained if not based on knowledge and high productivity. Citizens and officials of Arab countries need to carefully examine the growth stories of advanced and developed nations to glean lessons of success. An important lesson is that many of the measures that are demanded of developing countries by way of reform are not obviously reflected in the behavior, policies, and attitudes of the countries demanding them or of the international community generally. Advanced countries have developed an institutional framework that comprises a complex network of regulatory machinery. The cost of such regulatory systems is substantial; estimates for the United States range between \$44 and \$164 billion (1988 dollars). Additionally, they have instituted a wide variety of interventionist policies ranging from farmers' subsidy to renewable energy technologies on the production side and from simple economic mandated benefits to a generous welfare system on the consumption side (Niskanen, 1991).

Likewise, governments of the high performing Asian economies—East Asian Miracle—have followed activist policies to alter industrial structure and promote technological learning. They remedied the failure of market forces to guide investment to industries that generate the highest growth by deliberately "getting the prices wrong" to promote industries that would not otherwise have thrived (Amsden, 1989; Page, 1994). In the international trade it has been customary for countries to provide export subsidies and incentives. Indeed it is fair to say that international trade is not played on a single-level field, but on many uneven fields, each with its own set of rules and referees (Dawson & Lewelling, 1991).

IV. FUTURE OUTLOOK

The Arab oil decade, the 1970s, was the decade that inaugurated the greatest movement toward economic interdependence as manifested by the flows and reversed flows of Arab labor and financial capital (remittances, Arab aid, and grants) among oil- and labor-exporting countries. The collapse of oil prices as of 1982 caused the cushioning effect of increasing oil wealth to be removed which increasingly brought to the forefront the dynamics of conflict between foreign and domestic labor. The Gulf War and subsequent shifting of political alliances have dramatically affected the nationality composition of migrant workers in the gulf, Iraq, and Libya.

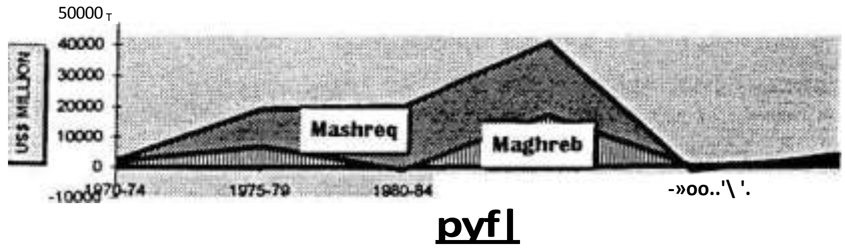

Figure 5. Capital Flight from Non-GCC Countries

Also, adjustment to the decline in capital inflows proved damaging to economic growth. The necessary reduction in budget deficits was accomplished mostly though expenditure cuts. This skewed public spending because costly and untargeted consumer subsidies and unusually high military expenditures proved difficult to control. In addition, the public wage bill initially soared in some countries as governments sought to increase their hiring in order to offset rising unemployment elsewhere in the economy. Instead, expenditure reductions were accomplished in all cases by deep cuts in public investment. Private investment also plummeted due to crowding out by the public sector and the deterioration in the incentive system. The tightening external financing constraint and the inability to expand exports in the short run led to increased import restrictions with further adverse effects on investment and growth. Furthermore, Arab economies continue to suffer from the leakage of billions of dollars annually in the form of capital flight. The cumulative magnitude of capital flight (even excluding the GCC countries) has been substantial, as Figure 5 demonstrates.

The predominant development strategy throughout the region was one that relied heavily on the state as a locus for investment, the mainstay of production, and a source of employment. Except in Lebanon, the public sector's share of total investment has been high by international standards throughout the region. This general expansion in the public sector was associated with an economic environment that inhibited the growth of private entrepreneurship, shunned the use of markets, and adopted highly protected trade regimes.

Experience varied among Arab countries. The hike in oil prices in 1973-1974 greatly increased Egypt's capacity to import. During the same period growing foreign exchange earnings from workers remittances (which in particular arrived from neighboring oil exporters) also contributed to the increased availability of foreign exchange. This laid the foundation to increase the living of standards through increased government spending. Hence, from

1973-1974 to the mid-1980s the Egyptian economy boomed with GDP growing at an average rate of 8.5 percent per annum.

To retain the level of employment after the drop in oil prices in 1982 the government of Egypt continued to stimulate the economy with public spending—this time financed by foreign borrowing. Ultimately, however, the regulatory system of trade protection and price controls with its disincentives for private sector efficiency led to several structural problems. The tradable sector became uncompetitive and much too small while foreign debt service increased rapidly. This situation was eventually reflected in the external, as well as a share of GDP, while the government budget deficit averaged 20 percent of GDP during most of the period from the mid-1970s to 1990. By fiscal year 1990 external debt has reached a level of $51 billion, equivalent to 144 percent of GDP (Pederson, 1993).

The fall of oil prices and remittances have caused the Egyptian growth rate to decelerate to 2.5 percent (and negative real per capita growth rate) in 1992. This represents a sharp decline relative to the growth achieved over the 1970s and 1980s, 9 percent and 5 percent, respectively. This is affecting the level and composition of output and employment in (between) public and private enterprises. For instance, public enterprises currently employ 1.3 million workers and account for 70 percent of the industrial sector and 80 percent of exports—but many operate at a loss. Under pressure from economic and political imperatives, Egypt has opted for a privatization and liberalization program that is expected to throw an estimated 80,000 to 100,000 employees of public enterprises into the files of the unemployed (HDR, 1993, p. 37).

Other Arab countries are experiencing difficulties, too, including the mismatch between labor supply and demand by skill composition. In Jordan, for instance, the disjointedness between human and economic developments combined with the sharp decline of remittances and official financial inflows have created disequilibrium conditions—an excess supply of skill-specific workers such as engineers. The problem is acute because human development strategy in Jordan up until the middle of the 1980s was premised on an "education for emigration" assumption. Likewise, in Yemen there is a deficit in the supply of the educated concurrent with a surplus of unskilled and semiskilled workers (Al-Saqqaf, 1992).

In the face of mounting budget deficits *(New York Times,* 1993), privatization in the Persian Gulf countries is gaining momentum. Desubsidization of marginally productive and consumptive activities and services seeks to improve efficiency and concurrently reduce the financial pressure on the public purse. After all, no economy can ever exist and maintain stability and cohesion on the basis of state handouts that are r.ot legitimized by some semblance of useful, not to say productive, economic activity. If implemented it would change some of the basic features in these economies. For instance, the transfer of the government-owned power and gas utilities to private owners who run them for profit may significantly weaken the social contract that binds rulers and citizens with untold political consequences.

The gulf countries are likely to experience the pinch of financial tightening as the baby-boomers graduate to become labor participants. In Kuwait, for instance, the number of Kuwaitis who were, in 1989, less than 10 years of age was 174,077; a figure nearly 50 percent more than the total number of Kuwaitis who were actually in the labor force—118,710—during the same year. This implies that in 10 to 15 years the majority of this age group will be ready to take up employment in Kuwait's labor market. There will be a sustainable number of entrants that would likely affect the wage rate, replacement of alien workers, and employment prospects in the public and private sectors of the economy (Al-Qudsi, Shaban, & Assad, 1989). Similarly in Saudi Arabia, where the population was recently measured at 16.9 million of whom 4.6 million are expatriates, there are more than 550,000 10- to 14-year-old males, compared with only 83,280 in the 50-54 age bracket. These figures suggest that soon there will be a net increase in the male labor force of about 100,000 a year (MEED, 1992). Labor surpluses are not a matter of future possibilities; estimates put the number of current male Saudis that are unemployed or underemployed at one million persons.

The 1991 census in Bahrain revealed that 77,269 citizens were working while 13,394 were seeking work; implying that the unemployment rate among Bahraini citizens has reached a record high of 15 percent. Competition from foreign workers, who comprise 60 percent of the work force, is considered to be a prime reason for the high unemployment rate. The census revealed that 40 percent of the population is under 15 years old, and will be entering the labor market in increasing numbers in coming years (EIU, 1993).

These demographic facts buttress the reality that the interplay of economics and politics have generated in the region. That is, the drop in the price of oil since 1986 and the political disarray that the Gulf War produced put into serious question the future of flexible and integrated Arab labor market. Prospects for continuing migration are poor, and Egypt and Jordan are having to get used to doing with a much smaller amount of remittances from the gulf. As far as labor is concerned, there is now regional fragmentation rather than cohesion (Wilson, 1994).

The situation in the occupied Palestinian territories is also alarming. The size of the current labor force is expected to rise from 315,000 to 470,000 by the year 2000. The projected annual growth of labor force is 4.1 in the West Bank and 4.7 in Gaza over the period 1990-2000. The rise is due mainly to the high population momentum, that is, because of changes in age composition of the population (World Bank, 1993b).

Similarly, the Maghreb countries are encountering difficulties in continuing the historical trend of labor exporting. Migration from these countries is seen as one of the biggest threats to security in Southern Europe in the medium term. Maghreb countries are experiencing annual population growth rates of between 2.5 and 3 percent, and their combined populations are expected to rise from the current level of 67 million to between 100 and 140 million by the year 2025. Growth in projected employment opportunities satisfies only about half the demand at 200,000 places annually (Joffe, 1993). As a result, unemployment rates of 20 to 25 percent have become common (Tessler, 1993), and among urban young men under the age of 30, particularly those with only primary schooling or less, estimates of the proportion without regular employment range as high as 40 percent. Unable to compete for available positions, often because their education is limited, these unemployed young men while away their days on street corners or in coffee houses, becoming ever more disillusioned and embittered.

With rising budget deficits and weak oil markets, Arab economies are in need to rethink their development strategies and reassess their national priorities. Human resources development appear to be sacrificed at the altar of restructuring and regional security. Despite massive shrinkages in oil revenues, the countries of the region continue to build up weaponry. Total arms orders from the Middle East—mainly the GCC—between 1991 and mid-1993 have been estimated to total at least $50 billion, with orders placed in the United States alone worth $28 billion. Even before the war, the IMF calculated that the six countries of the GCC states were among the 12 largest arms purchasers of the world, spending up to 13 percent of their GDP on arms annually, compared with a Middle East regional average of only 5 percent of GDP. If these countries were to reduce their arms sale to the regional average, they would save about $30 billion annually (Joffe, 1994). The political and economic events of the 1980s and early 1990s deserve the full credit for "stunting" the development "opportunity" and human resource potential of Arab economies. But in the current economic climate of structural adjustment and reduced labor and capital mobility what comes next?

Unless serious efforts and resources are invested to generate productive employment of the large cohort sizes that characterize Arab demographics, the future is likely to approach the "jobless growth" syndrome. Economic adjustment should be accompanied with social adjustment in a manner that does not allow unemployment to continue to rise and persist and poverty to become rampant. This implies active public sector policy measures. But instead of direct subsidy to the unemployed, programs to alleviate unemployment need to be given a fair chance. These should focus on creating funds to help the youth particularly in countries where open unemployment is very high and rising. Wage subsidies to private firms may prove effective in increasing private sector employment. Proper incentives should be put in place to signal to potential workers the value of reciprocal relationship between job-seeking and job-landing and reward. Such programs are cost effective from the budgetary perspective as increased employment reduces welfare payments, enhances tax revenues, and enables the economy to attain a higher growth path. Concurrently, serious efforts must be made in order to improve the economic efficiency and productivity of workers through education, training, and research and development. Phasing out the historically excessive reliance on public sector, the strong drive to rent-seeking activities, and misguided policies will require both strong will and creative measures that would succeed in activating the private sector and concomitantly avoiding the Arab economies the sins of privatization.

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