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**Reforming Labor Markets
in Countries of the Near East (NE) Region:
Implications for Structural Adjustment Programs
and the
Operation of Market Economies**

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Executive Summary

Why Analyze Labor Markets Under Stabilization and Adjustment?

It is in labor markets that the distribution of the burdens and benefits of stabilization and structural adjustments reforms are worked out. In addition, poorly operating labor markets can impede progress toward the goals of stabilization and structural adjustment, both because they can slow the reallocation of resources and because they can become the locus of social conflict over the implementation of the policies. Understanding how, in theory, labor markets should operate under stabilization and structural adjustment and how, in fact, they are working to facilitate or hinder the attainment of the policy goals in a given country is important for the formulation of better policies. Where labor market reforms should stand in the sequence of policy reforms is an issue that has begun to receive attention by researchers; not only the content but the timing of multiple reforms may affect success and there are some grounds for arguing that labor market reforms, if they are necessary, should come early in the sequence.

How Labor Markets Should and Might Operate Under Stabilization and Adjustment.

This study begins (section III) by briefly reviewing the theory of how labor markets should operate under stabilization (reducing deficits in both balance of payments and in the government budget while containing inflation) and structural adjustment (improving the allocation of resources, expanding growth potential and enhancing ability to withstand adverse shocks, largely by changing incentive structures in markets). Stabilization is likely in the short run to result in demand compression and rising costs of imports. Labor markets will respond either through declining employment (perhaps raising open unemployment) or through reductions in real wages, or both. In the long run, there should be a return to full employment. Most recently, the emphasis in structural adjustment has been on steps taken to enhance the expansion of export capability. Labor costs are an important factor in determining export competitiveness. Resources, including labor, should move from formerly protected activities (both non-tradeables and protected import substitutes) to the export sector. Changes in relative wages are important signals which encourage the reallocation and wage rigidities could impede or defeat the adjustment process and engender inflation, which would undercut exchange rate adjustments.

The behavior of the public sector as an employer and as a regulator of labor markets can play a significant role in determining how labor markets operate under stabilization and adjustment. Where, as is usually the case, the public sector is a (or the) major formal sector employer and wage payments are a significant part of the budgets, how the wage portion of budgets is reduced can seriously effect the efficiency of workers in both the public and private sectors. Cutting wages but not employment can create incentives for multiple job holding (moonlighting) which cuts efficiency in both sectors. Cutting employment but not wages can leave inappropriate relative wages between public and private sectors (if the public wages were too high to begin with). Government regulations - such as the minimum wage, job security (government consent in private sector employment termination and hiring) and rules for collective bargaining - will influence labor market operations if they are strongly enforced. These will influence both the pace and direction of labor reallocation and distribution of the costs and benefits of the reform measures.

Learning from Recent Experience in Developed Countries

Recent developments in labor markets in the U.S. and Europe have given rise to different contemporary theories about how labor markets may operate in competitive market economies. The major facts are: sustained high levels of unemployment in the U.S. and Europe during the 1970s and continuing on into the 1980s for Europe; wage differentials in the U.S. across industries and even within the same industry for equally qualified workers which persist over time; increasing earnings

inequality starting in the early 1970s and becoming more pronounced in the 1980s in the U.S. and to a lesser degree in many countries in Europe. The theories which have developed in light of these facts suggest that even when there is a high degree of competition in labor markets, with firms acting to maximize profits, there may be downward rigidity in wages, appearances of discrimination across groups, limits to mobility of labor across sectors and a persistence of unemployment.

Several of the theories may be quite relevant to labor market operations in developing countries. "Insider-outsider" theories can apply to situations where the urban formal private sector and public sector employees (the insiders) prevent wage adjustments in favor of the informal sector or newly emergent formal sector activities. "Labor market segmentation" as a barrier to access and mobility fits the differentiation between public sector employment and earnings mechanisms and private sector ones, between formal and informal sectors and differentiation of access and wages according to gender. "Efficiency wage" theories which explain why employers may persist in paying high wages even when there is an excess of workers willing to work at lower wages derive in part from the observed need in developing countries to heighten productivity by stabilizing the work force and improving its nutritional status and the concern of major employers, particular foreign based firms, about their reputation as good, non-exploitative employers. In addition, these theories point to certain types of reorganizations of the institutional structure of labor markets, such as "share contracts" and different tri-partite bargaining arrangements, which might ameliorate some of the barriers and rigidities.

As we examine the performance of labor markets under stabilization and structural adjustment, these newer theories should condition our expectations of how labor markets might operate even when "distortions caused by inappropriate policies" have been removed. The older neo-classical models of supply and demand mechanistically operating to move wages and employment levels causing markets to clear may not be the most appropriate standard by which to judge the efficiency of labor market operations in developing countries.

A Framework of Topics on Labor Markets and Detailed Review of Labor Market Response to Stabilization and Adjustment

Though we have just suggested that simple supply and demand clearing the labor market may not be the appropriate picture of labor markets in developing countries, in this study we present a simple framework of topics on labor markets grouping them under broad headings of labor supply, labor demand and market interaction and interspersing relevant data on the Near East countries under consideration (Section V). With this as background, we turn to a detailed review of labor market response to stabilization and structural adjustment, looking at such data as are available for the Near East countries, but also drawing on recent multi-country studies which provide theory and evidence drawn from other regions (Section VI). The review considers wage differentials and rigidities, skills mismatch, segmentation of labor markets, gender issues, labor mobility across sectors, the informal sector, the response of the public sector, regulations and institutions, including the role of unions. This is followed by consideration of the outcomes of adjustment policy in terms of distribution, protest and compensatory and safety net programs (Section VII). Since all of this is compressed into the summary in a later section (Section IX), we use that summary here to cover all this ground.

Summary of Findings

We draw our conclusions regarding labor markets in the Near East countries of Egypt, Jordan, Morocco, Tunisia and Yemen using the framework of topics outlined in section V. Three important caveats must be kept in mind in considering this summary: a) we are totally dependent on secondary source documents on these countries, this is not original analysis of primary data; b) stabilization and structural adjustment policies were, for the most part, initiated in these countries only in the mid to late 1980s, so at best only short term impacts have evolved by this time; c) data on labor markets, and related distributional considerations, is very limited for most of these countries and such data as

there are have, in general, only been processed and published for years through 1988.

- Labor Supply

Population growth puts extraordinary pressures on labor markets to absorb new entrants and makes the attainments of stabilization and structural adjustment goals more difficult as pressures to alleviate growing unemployment are heightened by the populations pressures. Jordan and Yemen have extremely high population growth rates and face a long horizon of pressure on labor markets as a result. Egypt and Morocco have been moderating their population growth rates but would be able to accomplish a good deal more if they were able to diminish them further. Tunisia has the best prospects as its population growth rate is well down.

Labor force participation rates translate the underlying population into labor force. The key area of concern in this regard, for these countries, is the low labor force participation rate of women. Female participation rates have been rising slowly for these countries for which data could be found, namely, Egypt, Morocco and Tunisia. There appear to be very few studies of the determinants of female labor force in these countries. Whether female participation will increase significantly is an important question for future policy planning. Increases present more new entrants to be effectively absorbed but opportunities for female work in tradeable sectors could be important for structural adjustment, both in agriculture and in manufactures. There is some hint of increase in female employment in exportables in Morocco.

Rural-urban migration has continued in all of the countries, though slowing somewhat in recent years in Egypt and Tunisia. This movement put continuing pressure on urban labor markets and on government budgets to provide amenities and social services. While agricultural earnings seem to have improved in Morocco and Tunisia, perhaps in response to structural adjustment shifts in incentives, it has not proved strong enough to stop or reverse the rural to urban flow. The question of rural to rural migration has not been studied in these countries and might deserve some attention.

International Migration and the remittance flows back to the sending country have been very important for all these countries. The remittances have been a significant part of the balance of payments. Outflows from Egypt appear to have generated occasional labor shortages in agriculture and construction in Egypt. The Gulf War caused some abrupt shifts which have been significant for Egypt, Jordan and Yemen. Planning for stabilization and structural adjustment has an added degree of uncertainty introduced by the variability in the level of remittance flows.

Human capital supplies in the labor force, as indicated by the degree of formal education, have risen in all the countries, with Egypt, Jordan and Tunisia having the strongest growth in primary and Jordan and Egypt in secondary. Morocco has been increasing enrollment rates but still remains low relatively. In all the countries enrollment rates for females are below those for males. Several experts have suggested that, in spite of high enrollment rates, the curricular content of the formal education may not be such as to generate appropriate labor market skills to facilitate stabilization and adjustment. Reports on the allocation of expenditures in Egypt suggest a disproportionate fraction going to higher education. Some careful examination of the extent to which formal education and training are shaped appropriately to foster the most useful skills for growth would seem warranted.

-Labor Demand

Sectoral structure has been changing in all the countries, with the decline in the share of employment in agriculture and the rise in the share of services as common features. Even though the share of employment in agriculture is declining, the absolute numbers continue to rise in most countries. None of the countries show a sharp rise in manufacturing employment, though there are some hints of increases recently in urban employment in manufacturing in Morocco. Time since reform is too limited and the data too spotty to detect definitively the influences of stabilization and adjustment policies. It appears that such effects as there have been have improved incentives and earnings in agriculture, particularly in Morocco. Because of the complex of subsidies, quotas and

credit structures, experts find it hard to predict what the effects will be for Egypt in agriculture .

Information on the informal sector seems to be totally lacking, therefore, the impacts of reforms on this sector cannot be assessed. It must be presumed, however, that informal sector employment has absorbed the fluctuations in employment in the formal sector and the rural inflow into urban areas. More needs to be known about the dynamics of the informal sector in these countries.

The major sectoral feature in all these countries is the very high proportion of employment in the public sector, both in public enterprises and in government administration and services. Governments have slowed down their rate of increase of employment but have not managed to actually reduce total public employment. Overstaffing and inefficiency in public enterprises has been found high in studies in Egypt and Tunisia.

Supply and prices of other factors of production, such as capital, land, and intermediate inputs have been concerns in the adjustment reforms in all of the countries. Exchange rate reforms, reductions in import licensing, increases in real interest rates, reductions in subsidies for fuel, fertilizers and other inputs have all appeared to a degree in the adjustment reforms of each country. In several of the countries, particularly Egypt and Tunisia, experts have argued that price distortions have encouraged a bias toward more capital intensive methods in both agriculture and manufacturing. It is too soon to detect the clear effects of these reforms on employment and, in any case, the pattern of cross-effects on inputs and outputs is quite complex so that detecting the distribution of any employment effects, both across sectors and within sectors, will require quite detailed information.

-Market Interaction

Compensation levels and trends are determined by the interaction of supply and demand in competitive markets, although recent developments in labor economics theory suggest that range of movements may be more constrained than the simplest theories had suggested. In all the countries under consideration, real wages are said to have declined in the 1980s, though the quality of the data on which such statements are based is questionable. In all cases, experts conclude that real wages in the public sector have declined relative to those in the formal private sector, primarily through nominal public wages rising less than the rise in price levels. There was no clear evidence of downward rigidity of wages (a common finding in recent multicountry studies), but at the same time it could not be determined whether the shift in relative wages as between tradeable and non-tradeables had moved in the direction called for under adjustment - in order to encourage the movements of labor in the appropriate directions. The decline in the real wage in the public sector was said by observers to have given rise to extensive second-job-holding (moonlighting) in the private sector and concomitant decline in public sector efficiency. It is generally felt that, economically, it would be far better if governments could be encouraged to reduce their employment budget expenditures by cutting the number employed rather than by reducing real wages and tolerating moonlighting, but it is recognized that this may be politically more difficult.

Disequilibrium in labor markets under stabilization and adjustment can be indicated by increased unemployment, although some contemporary theories suggests that sustained involuntary unemployment can occur in reasonably competitive labor markets even without the pressures of stabilization and adjustment reforms. There was no clear evidence of sharp rises of open unemployment following stabilization and adjustment reforms, though there was a slight upward trend in most countries at the end of the 1980s. However, in most of the countries, the unemployment data suggest that "luxury unemployment" was predominant in that there was a high proportion of more educated persons (secondary and university) among the unemployed. In Morocco, however, recent data give some suggestion that urban unemployment might be related to stabilization, as a substantial proportion of the unemployed are not highly educated and give as the reason for unemployment closing of their firm.

Movements of labor which should be part of a successful structural adjustment process can be hindered by segmentation of labor markets. In these countries, the major form of segmentation is between the public sector and the private sector. There would also appear to be segmentation on the basis of gender. The lower level of educational enrollment of females, their much lower labor force participation rates and their somewhat different rural-urban distribution all suggest that segmentation on the basis of gender is likely to be operating in these labor markets. We did not come across detailed studies of the distribution of employment or wages of females across industries. There was some mention of increased employment of females in the increasing export industries in Morocco.

Institutional structure of the labor market is clearly important in determining differences across countries in the way labor markets operate. Unions and the collective bargaining process can be important not only economically but politically. The extent of union membership varies across the countries, mostly around 10% of the formal private and public labor force, but with Egypt has an estimated 25% of combined public and private formal sector employment. But as unions can be an organized force in urban settings, their influence on the course of reforms may be more than proportional to the size of their membership. The unions in Egypt, Tunisia and Morocco were said to have been generally opposed to the stabilization and adjustment reforms, particular any that suggested reductions in public sector employment. It is not clear how influential they have been.

The issue of how government regulations affect the operation of labor markets is a critical one for most of these countries. While minimum wages are always foremost in the mind of those concerned about government labor regulations, there was no evidence that these were particularly important in the countries under consideration. This is a finding which, with a few exceptions, seems to have held true broadly in recent multi-country studies. Tunisia appears to have the strongest enforcement, but whether minimum wages have really been a constraint on labor market adjustments is not clear. More important than the minimum wage are legislated job security and access regulations in Egypt, Tunisia and Jordan. Regulations which make laying off of workers a complicated and negotiated process are said by many observers to have led private formal sector employers to be biased toward less labor intensive technology, to hire new workers more slowly, and to resort to overtime and contract work. Regulations requiring hiring be done through public sector employment agencies are probably widely circumvented but are judged by many as an irritant and they contribute little to the informational efficiency in the labor markets. In order to determine how great a priority changes in such regulations should be in any subsequent policy reform, a deeper examination of the effects of these regulations on labor markets in these countries would seem called for.

-Distributional Effects of Adjustment

As noted above, two factors limit our ability to say much about the distributional effects of the stabilization and adjustment reforms undertaken in these countries. First, reforms were in general undertaken in the later part of the 1980s and only short term effects would have emerged. Second, appropriate data for estimating the impacts is rarely collected and such data as have been collected have only been processed and published for years up to 1988. For Egypt and Morocco, however, there are two extensive reports that try to review systematically what can be learned about the distributional effects of the reforms, particularly as they effect the lowest income groups. These reports focus not so much on what has been learned about actual effects of reforms but on the conditions in labor markets and in the system of social services and supports which would be likely to mediate how reforms might affect various groups. Many of the features of labor markets which would condition distribution of benefits and burdens of stabilization and adjustment have already been reviewed above, e.g. segmentation (public-private and by gender) and differential impacts on agriculture and urban employment. Here, however, more attention is paid to the effects of changes in input and output prices in other markets, in particular to the importance of various food subsidy

programs.

In several of the countries rises in food prices connected to the reforms have generated urban riots. The Egyptian subsidy system, mostly for food but also for utilities and transportation, is the most extensive - some 93% of the population is estimated to receive some form of food subsidy - and expensive. Some steps have been taken to reduce the scope and level of subsidies, but they remain extensive. The major problem in sensible reform of the subsidy and other social support systems is that they are poorly targeted on the most needy groups: there is a lot of "leakage" of social transfers to the better off in the society. This not only means that the level of support to the worst off for a given level of expenditure is diluted but it also means that cutting subsidy expenditures is made more difficult politically because the benefits are so broadly distributed. The interaction of the reforms in labor markets and the need for reform in subsidy programs makes the reform process more difficult and the phasing of reforms a critical issue; handling short run increases in unemployment engendered by demand compression and at the same time reducing widespread subsidies is likely to generate tremendous social protest and pressure to reverse those reforms.

Egypt has an extensive system of social programs - social security, health, education - which will play a role in determining the distribution of the impacts of adjustments. Steps to improve the efficiency of these systems need attention as part of the adjustment process and there is evidence that international agencies and the government are increasing aware of this. Morocco is also attempting to focus some of its second round of reforms in sectors which will alleviate adverse distributional effects of adjustment policies.

Recommendations

Based on this review of the operation of labor markets under structural adjustment for Egypt, Jordan, Morocco, Tunisia and Yemen, we have developed a group of recommendations regarding further studies and policy development. A set of priorities of data collection and analysis are provided in Section VIII. A synopsis of the more general recommendations follows.

1. The Sequence of Reforms

Recent empirical evidence indicates that labor costs are a significant determinant of manufactured export growth and "labor market distortions" impede that growth. Analysts have developed models that suggest that labor market reforms - to the extent necessary - should precede other reforms in the sequence of stabilization and structural adjustment reforms. It is urged that the issues of sequence of reforms be given greater attention for the Near East countries under consideration. A hypothetical example is given for Egypt involving the sequence: a) introduction of "share contracts" (employee compensation related directly to overall enterprise performance) in the parastatals; b) parastatals are removed from coverage under the labor code which requires extensive negotiations involving the state for any terminations of employment; c) use of a Social Fund to provide substantial, one time "capitalized" severance payments combined with a system of "incubator services" to assist those terminated in using these funds to start new economic activities; d) freeze or reduce civil service employment while at the same time raising the real wage and rigorously enforcing regulations against second job holding in order to increase efficiency in both the public and private sector; e) attempt to target more tightly food, utility and transport subsidies on the lowest segment while reducing overall expenditures on such subsidies (and related regulations and quotas); f) address the possible reallocation of education and training expenditures to better meet the evolving skill needs in the reformed economy.

2. Case Studies of Labor Market Institutions

Case studies of regulations and institutions in the labor markets of the individual countries should be undertaken in order to help determine where and how to look for the impact of stabilization and adjustment reforms or the lack of progress in instituting and implementing reforms.

3. Detailed Studies of the Labor Market in Export Sectors

A central objective of adjustment policies is to promote the growth of exports, it is therefore important to obtain, and analyze systematically information on employment, wages and labor costs, at a detailed level of industry disaggregation for the export sector. If possible these data should also provide occupational and/or educational breakdowns and differences by gender.

4. Wage Inflexibility Downward

Though the evidence at hand gives no indication of downward inflexibility of wages in these countries, the subject is of sufficient importance in establishing the extent of "labor market distortions" related to adjustment that it deserves some further study, particular with respect to Tunisia.

5. Monitor Educational and Training Efficiency

To determine whether, as suggested in several studies, curricula and institutional structures are such that skills appropriate to the reformed economy are not being produced, tracer studies should be initiated to follow the movement of graduates of the education and training institutions into the labor force and the effectiveness of their training. The extent of existing apprenticeship and skills training activities should be studied in light of whether they need to, and can, be reoriented so as to contribute to the goals of structural adjustment (enhancing labor mobility and reducing skills mismatch). A study of the potential usefulness of training-tax/training-subsidy schemes for these Near East countries should be undertaken.

6. Gender in Labor Markets

We did not come across any studies of issues concerning gender in labor markets for the Near East countries under consideration. An important starting point would be studies of the factors which influence the labor force participation rates of women in these countries. Does gender segmentation of labor markets hinder structural adjustment processes in these countries? Will the adjustment process cause shifts in the gender segmentation of labor markets? In particular, it seems that it would be useful to examine and monitor the progress of the participation of women in export industries. In many developing countries growth in manufactured exports has been in industries which hire greater proportions of women. Which specific industries are women in and which do they seem to be excluded from? How does this differ across countries and what can be learned about barriers to access from such differences as are found? What happens to the women as these export industries mature, do they move up in skills as the industry becomes more sophisticated or are they pushed out? If they leave do they carry modernized skills and attitudes to other sectors?

7 Studies of the Informal Sector

The lack of data on the informal sector in these Near East countries is remarkable. Collection and analysis of such data is important to an understanding of adjustment processes. A central point of interest is the degree of linkage of informal sector activities into the export sector, both the already established export sector and any export growth that emerges as a result of structural adjustment.

8. Rural Non-Agricultural Employment and Earnings

There is evidence in several of the countries that in the rural sector non-agricultural employment and earnings are substantial. This is a phenomenon which has been, to our knowledge, relatively rarely studied and can be important as part of how labor markets adjust under stabilization and structural adjustment. Study should determine: the degree to which non-agricultural employment and earnings are tied to the character of the agricultural base through input and marketing support functions; whether export agriculture growth would change this; whether there is light manufacturing whose growth could be enhanced through technical assistance.

9. Critical Skills for Modernization and Export Growth

The nature of skills needed to penetrate new export markets should be studied (packaging, meeting standards of quality and reliability, solving problems of distribution are part of this). Likewise special skills may be needed to modernize support functions such as finance, international

transportation may be needed. In addition, skills which facilitate technological transfer should be studied. Whether technical assistance by government or donor countries could help in this regard should be determined.

10. Labor Market Structures to Deal with Fluctuations

The more open economy which may result from the success of policies of stabilization and structural adjustment may be subject to greater fluctuations in economic activities because of external economic developments. Consideration needs to be given to whether labor markets can be structured so that the impact of fluctuations is better absorbed and more equitably distributed. "Share contracts" is one type of innovation which might be considered in this light and which need to be evaluated in more concrete, practical terms. Countercyclical public works and greater "cross-training" of workers are other innovations which deserve study.

11. Studies on the Distributional Impact of Adjustment

It would be useful to have thorough studies of, and monitoring mechanisms for following, the distributional impacts of stabilization and structural adjustment in all the Near East countries. We noted that such studies exist for Egypt and Morocco and believe that they provide good models, especially in the Egyptian case, for what might be accomplished in other countries. We leave this recommendation to last, however, not because it is not important but because it is highly dependent on the quality of available data; where the data are weak there may be little point in attempting to undertake such studies and resources would be better devoted to developing the data base so that they could be productively carried out later.

Data Priorities

Given the limited resources available and the weak state of data on labor markets in the Near East countries under consideration, it is important to develop some clear priorities for data improvement efforts. Our priorities in that regard are reported in Section VII of this study.

Reforming Labor Markets in Countries of the Near East (NE) Region: Implications for Structural Adjustment Programs and the Operation of Market Economies

I. Why Analyze Labor Markets in the Development Process?

Most studies of the process of economic development, and of policies which might facilitate or impede such development, have focused on the accumulation of capital, the pattern of investments in physical and human capital, the nature of international trade and how governmental policies have or can influence how these factors interact in the development process. Relatively little attention has been paid to the processes in which the distribution of products of economic growth are largely determined, namely markets for labor services.

There are many reasons for paying more attention to the operations of labor markets. In order to better motivate this study, we list very briefly the most important reasons.

For most individuals and families, in most countries, the largest component of their income is the returns for their labor (earnings), either through self-employment or through payment for services. The determinants of the level and distributions of earnings are therefore the major determinants of the level and distribution of material well-being in the society. A careful look at the operations of labor markets is therefore an important part of understanding how the development process unfolds and affects most of the population.

The interactions in labor markets results from the interplay of decisions by firms and individuals about the utilizations of labor services but they are simultaneously the source of signals to firms and to individuals which influence their decisions about the utilization of other resources. Poorly operating labor markets can generate poor signals which have ramifications outside that immediate labor market leading to an inefficient use of resources in other input markets and in output markets in both the short and the long run. A price for low-skilled labor which is higher than its true opportunity cost, say because collective bargaining set the wage too high, can lead to the substitution of more capital intensive processes and, therefore, lower employment than would be efficient. A price for skilled labor that is too low, perhaps because public sector wage rates have fallen too low, can lead to an underinvestment by individuals in developing productive skills, slowing the development process.

It has become increasingly apparent, both in terms of the theory of economic growth and in terms of empirical findings, that the growth in human capital plays a larger role in development than growth of physical capital. In addition, the lack of critical skills at particular points in the development of a given industry can create bottlenecks not only for that industry but also for the development process.

There can be distortions in labor market processes which hamper the growth of human capital or lead to a failure to provide critical skills.

The interplay of the public and private sector is particularly pronounced in the labor market. In many developing countries, the public sector has been the major employer, particularly of the skilled labor force, in the civil service, in the education sector and in public enterprises. It is clear that the governmental decisions with respect to both wage setting and employment in the public sector will have significant impacts on what occurs in private sector labor markets. In addition, government policies can play a major role, improving or impeding development processes, in the operations of labor markets through legislated conditions of work, bargaining processes, specific limitations on hiring and firing processes, even direct wage setting, such as minimum wages or relative occupational wages.

In developed countries, the economic issue which has always had the greatest prominence in political discourse is unemployment. In developing countries, as the size of the agricultural sector shrinks in the typical development process and urbanization increases, closer ties are forged between developments in urban labor markets and political processes. "The educated unemployed" can become a concern to politicians disproportionate to their numbers because the politicians fear their potential for generating political conflict. Unions can have a major influence on political strife particularly because they can be a mobilized force in otherwise weakly organized situations.

Perhaps most relevant for this study, malfunctioning of the labor market can defeat attempts to adjust to external shocks or to achieve structural adjustments. This can take both purely economic or political forms. Adjustment inevitably requires a change in the allocation of resources across sectors. Poorly functioning labor markets can stymie such reallocations either because of wage rigidities or because barriers to access (social constraints on location or types of work permitted for various groups) limit mobility of labor. Political support for economic reforms can be difficult to maintain if distortions in the labor market cause the gains and losses from reform to be highly unequally distributed; smoothly functioning labor markets can help minimize exacerbation of political conflicts arising in conjunction with reform efforts.

Through a better understanding of labor markets operations, international organizations may help developing countries to develop stabilization and structural adjustment policies which have a better chance of succeeding. It can help them to formulate policies and projects which could help recipient countries to achieve a more equitable distribution of the benefits and burdens of stabilization and adjustment. It may, in particular cases, help them to identify strategic points of intervention which would smooth the adjustment process.

I. Structure of the Study

We briefly outline here the structure of the study which follows.

In section III we provide a quick review of the rudimentary theory of how labor markets should operate in situations of stabilization or structural adjustment.

Section IV presents a series of experiences and theories about labor market operation drawn from recent developments in the developed countries. New theories developed in light of recent facts suggest different ways of evaluating labor markets in developing countries.

In section V we present an ordered framework of perspectives on labor markets in developing countries. Under each topic we review relevant evidence from Egypt, Jordan, Morocco, Tunisia and Yemen, - the Near East countries which are the focus of this paper.

Section VI is a detailed review of the response of labor markets in developing countries to stabilization and adjustment. We present the limited available evidence regarding the Near East countries' experience with stabilization and adjustment. We also draw heavily on empirical evidence compiled in several major cross-national studies.

In section VII the distribution of the effects of stabilization and adjustment are considered. Issues concerning compensatory or "safety net" programs in response to these effects.

Section IX is devoted to recommendations about types of data which should receive highest priority for development and analysis.

III. Labor Markets in Situations of Stabilization or Structural Adjustment.

In recent years a great preponderance of discussion by those concerned with economic development has been devoted to topics related to economic stabilization and structural adjustment. It has also been the case that most of the recent writing about labor markets in developing countries has been in the context of addressing issues related to the operation and impact of stabilization and structural adjustment. To facilitate a longer and more detailed review of these topics later in this study, we sketch out here how and why the operations of labor markets can, in some situations, affect the success and the distribution of the impact of stabilization or structural adjustment.

To begin, with a distinction needs to be made between the short run policies of stabilization and the longer run policies of structural adjustment.

Stabilization aims to reduce a deficit in the current account of the balance of payments and bring the government deficit to manageable proportions, while reducing the rate of inflation. This often is implemented through demand compression policies, a "credit crunch" and reduced government expenditures, that can cause a recession in the economy. Significant unemployment may emerge and threaten the sustainability of the effort. In theory, in the medium run (barring significant distortions in input and output markets) a return to full employment can be expected.. The expenditure reduction used to bring the deficit in line may also have two side effects: 1) the market clearing wage will be depressed as government workers are released and, 2) lower levels of investment (both public and private) under these policies will reduce growth in the economy and real wages.

Structural adjustment is often undertaken in tandem with, or following, stabilization and has a broader and deeper set of goals. It aims to reform policies (micro and macro) and institutions to make them more efficient, to improve resource allocation and to expand growth potential and resilience to future shocks, such as adverse shifts in terms of trade. Typically, in recent years, a major adjustment goal, as embodied, e.g., World Bank Structural Adjustment Loan conditionality, is increased export orientation. This requires the shift of resources from the nontradeable goods to tradeable goods sectors. In addition, if the adjustments are to be sustained, the goals of structural adjustment should, like stabilization, include the establishment and continuation of sound fiscal policies.

Major features of adjustment are external trade balance, internal fiscal balance, monetary control, adjustment of price structures (subsidies, tariffs, taxes) and control structures (marketing boards, exchange controls, investment controls).

A critical element in the implementation of adjustment is a shift in relative real wages. Usually,

where there is export potential (or need for import reduction) for agriculture, urban real wages need to fall and rural rise. More generally shifts must occur from protected activities to export-oriented activities, and shifts in labor costs are a major determinant of the viability of such shifts¹. Well-functioning labor markets will generate signals through relative wages to facilitate such reallocation; poorly functioning labor markets may impede or even defeat the adjustment process. Exchange rate adjustments can fail if real wages do not decline and inflation is allowed to offset the exchange rate adjustment.

Typically, in either the stabilization or the structural adjustment process, the size of the public sector total wage bill must be reduced. How this is accomplished can have big effects on efficiency in the use of skilled labor. If real wages in the public sector are cut (usually through a constant nominal wage and rising prices) but employment is not cut, the result can be the gradual development of dual job holding, corruption and general inefficiency in the performance of the public sector work force, which spends a disproportionate amount of its energies in other activities trying to maintain real income. Thus the skilled labor that was in the public sector neither performs its public functions well nor does it devote its full energies to new private sector activities.

Another series of major questions center on whether government interventions in the labor market, through "setting the rules of the game" (labor laws and their enforcement)- as well as through its direct employment activities - make adjustment in labor markets harder and perpetuate inequality and inefficiency or, on the contrary make adjustment smoother, more equitable and efficient.

Finally, there are issues concerning the sequence of the reforms which make up the adjustment process. Will adjustments work better if attempts are made to reform the labor market before undertaking exchange rate or capital control reforms, or will they work better if the labor market reforms follow the others?

¹See Riveros 1992, a recent econometrically sophisticated multicountry which establishes that level of labor costs have been a significant determinant of manufactured export growth.

IV. Salient Considerations from Experience and Theory regarding Labor Markets in Developed Countries

Discussions of labor market reform in developing countries often need to be carried out with reference to some conception of the markets might look like if they "operate properly" yet that conception is rarely clearly spelled out. Vague reference is usually made to the way a labor market might operate in the idealized theoretical neo-classical world in which both output and labor markets are perfectly competitive. Alternatively, reference is sometimes made to getting the developing country's markets to work "the way markets work in developed countries". In the following section we describe how recent developments have given rise to various contemporary theories about how labor markets may operate which suggest that even when there is a high degree of competition in labor markets, with firms acting to maximize profits, there may tend to be downward rigidity in wages, appearances of discrimination across groups, limits to mobility of labor among sectors and a persistence of involuntary unemployment.

A. Summary

We start here with a compact summary indicating how the theory and experience from the developed countries might be salient to the issue in developing countries which are the primary subject of this study. For those who may find this summary too compact, it is followed with a more detailed - albeit high simplified - explanation of the theories and how they seem to have been stimulated by the recent experience of developed countries

A brief review of some recent salient features of developed country labor markets and theories about how they operate can serve to warn us to condition our expectations about how the function of labor markets in developing countries might be viewed and not utilize simply the old textbook model of a mechanistic matching supply and demand.

The "insider-outsider" models developed for the industrialized economies seem to fit well with the situation of government sector in developing countries, and their organized formal sector, where "insiders" freeze out those working in the informal sector.

The new views of the unions, emphasizing their role in helping to mobilize the internal structure of organizations, suggest that they may have a constructive role to play if they can be shaped to give "voice" to the outsiders rather than simply protecting the privileges of the "insider". The government may have an important tri-partite role to play in representing interest of the outsiders to balance both those of the employers and the insider unions - or even unorganized insider employees.

The "efficiency wage" models which have been developed suggest that even in a well operating labor market we should expect to continue to observe wide dispersions in wages which persist over time. Even when "distortions" from minimum wages, government job security regulations or union strength

are mitigated high wages may persist even in the face of excess supply because it is "efficient" for employers to pay such wages.

The possibility of segmentation of the labor market needs to be taken seriously and varieties of barriers (e.g. strong role of government as an employer, gender divisions within both industry and agriculture) which give rise to such segmentation should be looked for carefully.

"Share contracts" which relate worker compensation to performance of the firm may provide a form of labor market organization which will create more flexibility in markets while giving workers the feeling that fluctuations in their compensation are fair because they arise from their shared responsibility for performance or the need to spread the impact of externally generated deteriorations in market conditions. But effective share contracts require a level of openness and accountability on the part of management - government or private - which will engender trust of workers in the fairness of determination of their share.

We turn now to the specifics which gave rise to these various theories.

B. Sustained High Unemployment in Europe and the U.S.

In the last decade or so there has been considerable turmoil in the labor markets of developed countries and this has been accompanied by revisions in theories of labor economics.

The 1970s and 1980s were in general characterized by much higher levels of unemployment in the U.S. and Europe than had been the case in the 1950s and 1960s. Of course, the two worst world wide recessions since the Great Depression played a large role in creating these high levels of unemployment, but, in general, the levels of unemployment tended to stay higher than in the previous decades even when the economies emerged from the recessions, a development which was sometimes referred to as an upward drift in the "natural rate of unemployment".

Partly as a result of these developments macro economists focused more of their attention on how the character of the operation of the labor market might explain sustained high unemployment. In the 1970s the "rational expectations" school of macro economists had suggested that such unemployment as existed must be "voluntary" in character, i.e., as largely related to job search behavior and an unwillingness to take available jobs at the going wage rate. In reaction, neo-Keynesians began to develop

²The "natural rate of unemployment" is conceived of as unemployment which exists because of frictions in the movement of labor between jobs. It is "voluntary unemployment" (in contrast to "involuntary unemployment") in the sense that it is thought of as arising from job search to find a better job or at initial entry or re-entry into the labor market. The economy is thought to be "at full employment" even with a non-zero rate of unemployment because attempts to lower the unemployment rate below the "natural rate" will lead to inflation.

more complex theories of how labor markets might generate sustained "involuntary unemployment" including "overlapping contracts", "menu costs" and other explanations for failure of labor markets to clear³.

C. New Theories of Labor Market Processes

In the later 70s and early 80s a sharp and puzzling contrast began to develop between the U.S. and Europe. For most countries in Europe, sustained high rates of unemployment were accompanied for the most countries by a continued rise in real wage rates for those employed. For the U.S., in contrast, particularly post 1982, the overall rate of unemployment declined slowly and employment to population rates rose to new highs, indicating a tightening of labor markets, but real wages stagnated and in some cases declined, usually a sign of looser labor markets.

These contrasts generated considerable debate about differences in the way labor markets operated in Europe and the U.S.⁴ Some stressed the role of small enterprises as source of new employment growth in the U.S. and "the greater flexibility of U.S. labor markets" which would tend to generate a combination of less unemployment but lower real wages. Others stressed the higher degree of collective bargaining in European economies (e.g. Germany, France) and the stronger social safety net systems. The European unions pushed hard for higher wages, obtained at the price of higher unemployment, and the social safety nets tended better to mitigate the pains of the sustained high unemployment, thus creating a higher tolerance for the tilt toward a high wage but high unemployment tradeoff.

European economists, in particular, developed a class of models called "insider-outside" models which seemed to fit the experience in Europe. The basic idea in these models is that those workers already employed - the insiders - will seek to raise wages at the expense of employment of new workers - the outsiders. Their ability to do so depends on their market power, which may come either through the form of unionization and collective bargaining or through the specialized knowledge they have of the firm's work processes which make them expensive to replace.

In the U.S., theorists became increasingly interested in a description of labor markets which has

³The problem is to explain why, in the presence of an excess supply of labor represented by the unemployed, wages do not fall so that markets will clear. The "overlapping contracts" idea is that long term contracts set wage rates that will respond to excess supply or excess demand conditions only when the contracts are renewed and therefore wages may be sticky downward in the periods between contract renewals. The "menu costs" idea is simply that it is expensive for firms to change both prices and wages often (similar to the costs of reprinting the menu) and this may give rise to downward stickiness in wages.

⁴See Robert Z. Lawrence and C. Schultze eds 1987 for a review of the issues and evidence.

been referred to as "efficiency wage" theory. The basic idea is that it may be efficient for employers to pay wages above what the classical market clearing wage would be, i.e., even though there may be workers not currently employed who offer to work at lower wages than the firm is currently paying, the firm may still maximize their profits by not lowering their wage and hiring these workers. There is complex variety of reasons (and accompanying models) which have been suggested to explain why paying an above market wage may still be efficient from the point of view of the firm⁵. Interestingly, this type of theory received initial impetus in the context of developing countries where it was argued that even in the face of surplus labor offering its services at lower wages, employers might pay higher wages in order to assure that their workers had enough to improve their nutrition and thereby their productivity. Another developing country context rationale was that paying the higher wage would permit workers to bring their families to the area where the firm was and thereby cut down on circular migration between home and work place - which tended to reduce productivity of workers.

A related set of theories suggested that downward rigidity of wages may arise from the development of social norms about fair and equitable wages. In a set of quite readable lectures, Nobel Laureate Robert Solow develops arguments for considering the role of social norms in shaping the operations of labor markets. He says: "I want to make the case that the labor market really is different. In particular, I claim that it cannot be understood without taking account of the fact that participants, on both sides, have well-developed notions of what is fair and what is not."⁶

Concern with their reputation over time as "fair" employers may limit the willingness of firms to pursue wage cutting policies to the maximum that market clearing might require. On the other side of the labor market, the concept of fairness and the workers' concerns over the long-run precedents for treatment of labor may limit the degree to which workers actively offer to work for lower wages, thereby undercutting those currently employed.

Solow goes on to weave together the social norms approach with other efficiency wage and insider-outsider theories to develop something of what he calls a "norm guided approach to the labor market". He reviews some very simple tests of this "norm-guided approach" as opposed to the more traditional "natural rate of unemployment approach" and concludes it performs "at least as well econometrically as the orthodox view in the European context, and almost as well in the American

⁵See A. Weiss 1990 for an excellent short review of the various efficiency wage models.

⁶ Robert Solow The Labor Market as a Social Institution Basil Blackwell 1990 p.3

context".⁷

In addition, Solow provides a few remarks about these theories as related to policies aimed at combating persistent unemployment. A couple of these will be relevant to our discussion below of labor market policies in developing countries, so we quote Solow at some length.

Considering the insider-outsider type of interactions in the labor market to be relevant, he says: "a natural correction would be to seek ways of amplifying the voice of outsiders in labor markets. ...a complication arises [however] because the labor market is a social institution and not a machine for matching supply and demand. It is one thing to strengthen the hand of outsiders relative to insiders and quite another to strengthen the hand of employers relative to insiders. Employment might rise in both cases, but the distributional implications could be different. (The political consequences are obviously different.) As a practical matter, reforms have a better chance of surviving if they do not, or do not seem to, take sides between employers and workers."⁸

With respect to efficiency wage theory he comments: "The commonest version of efficiency wage theory claims that the average level of unemployment is as high as it is because the threat of discharge for cause has to be serious enough to elicit an efficient intensity of performance on the job. If the unemployment rate were any lower, jobs would be too easy to find, the threat of losing any given job would not occasion any great loss, and work effort would be less... two possible initiatives suggest themselves... Presumably the best possible monitors of work effort are other workers in the same shop-floor group. If a major part of compensation for work were tied to group effort or group productivity... it would be in the interest of the group members to see that everyone contributed a fair share....A second ...idea is to look for ways to associate each worker's interest more directly with the success of the firm. Agreements tying wages to productivity are in use, here and elsewhere, but they have the limitation that the individual's productivity is not easily isolated and measured in the context of modern industry, including many service industries. Profit-sharing - or what is more broadly called gain-sharing - has some of the right properties...My colleague Martin Weitzman has urged on other grounds the advantages of compensation schemes with a significant profit-sharing component. Maybe this is another route by which that device might help to lower the equilibrium unemployment rate".⁹

⁷Ibid. p.71

⁸Ibid p.76

⁹Ibid p.77-79

The development of these labor market theories has led many economists to take more seriously than they had been willing to do previously the argument that labor markets may become segmented, with different wage and employment determination processes operating in various segments.¹⁰

We can take from these new theories a different set of expectations about how labor markets in developing countries might operate even when "distortions caused by inappropriate policies" have been removed under structural adjustment. In addition, the theories provide some justification for considering other forms of labor market and firm organization which might facilitate the types of flexibility looked for under stabilization and structural adjustment.

C. Growth in Inequality of Wages and Earnings

In this section we review some of the facts about increasing inequality in labor markets in developed countries and the persistence of wage differentials over time. The standard neo-classical theory has not proved satisfactory in fully explaining these developments and this has given rise to a closer look at alternative theories and at the role of institutions and social norms in affecting the operations of labor markets.

In recent years economists in the U.S. have begun to pay a good deal of attention to the growing inequality in wages and in earnings among various groups. This trend to increasing inequality has been especially notable during the 1980s but careful research has indicated that, in fact, the inequality began to grow around 1972. The post 1972 trend toward increasing inequality contrasts with the virtual constancy of the degree of inequality in the U.S. from the end of World War II until 1972.¹¹

In the post 1972 period, in general, real wages of full time workers in the U.S. have shown little real growth. At the same time, differentials between the lowest and the highest paid have grown sharply. For example the male full-time year round workers' wages in the 90th percentile of the wage distribution were 4.8 times those in the 10th percentile in 1972 but by 1989 the figure was 7.4 times the 10th percentile wage.

In Appendix A we provide a table of information on real and relative earnings for white full time, year round workers in the U.S. 1973, 1979 and 1987. These data show that real wages for those

¹⁰ Dickens, William and Lang, K. "Labor Market Segmentation Theory: Reconsidering the Evidence" National Bureau of Economic Research Working Paper No. 4087 June 1992

¹¹An excellent review of the evidence and attempts to determine causes is provided in F. Levy and R. Murnane 1992

at the lower end of the distribution declined. For High School dropouts, for example, real year round earnings fell from \$22134 in 1973 to \$19169 in 1987.

Differences in earnings by level of education declined in the 1970s (to such a degree that one famous labor economist wrote a book entitled The Overeducated American) - for those aged 25-34 the average earnings of college graduates were 1.45 times those of high school dropouts and this ratio fell to 1.45 by 1979 - but then the trends reversed direction and the ratio rose sharply during the 1980s, so that by 1987 the ratio of white college grads average full time workers to that of full time high school dropouts was 1.86; the premium for a college education rose to historically high levels. Similarly the premium for experience in the work force increased.

Researchers are struggling to pin down the causes of this shift from relative constancy in inequality to growing inequality. Some of it can be related to the impact of increased international competition, to the decline in unionization in the U.S. and to the increase of immigration. But about 50% of the increase in inequality remains even within groups with the same degree of education, work force experience, gender and race and this is proving difficult to explain.

The impact of technological change influencing the relative demands for skilled as opposed to unskilled workers is an explanation favored by some researchers¹² but this remains something of a residual catchall category for what cannot be otherwise explained and is difficult to test directly. Some detailed case studies seem to support the argument that changes in technology increased skill requirements while others do not.

Recently researchers have begun to make cross-country comparisons of trends in inequality¹³. In general they have found that most developed countries experienced increases in wage inequality in the 1980 (although the case of Japan is unclear because of data limitations) but none had as large an increase in inequality as the U.S. Interestingly, one study (Davis) which includes a few middle income countries (South Korea, Brazil, Venezuela and Columbia) indicates declining inequality in wages in the 1980s in these countries.

Another feature of labor markets in developed countries which has drawn increasing attention from researchers is the existence and persistence of large inter-industry and intra-industry differentials in wages. It is important to note that these differentials are sustained even after one controls statistically for the measured characteristics of workers, i.e., they do not represent simply different concentrations

¹²See J. Bound and G. Johnson 1992

¹³See for example Stephen Davis 1992

of measurable skills in different industries¹⁴. Three further features of these findings deserve special note. First, the differentials are found across occupations, i.e., those firms which pay professionals a premium over the market average also pay less-skilled workers a premium over the average wage in their occupations. Second these differentials have a strong tendency to persist over time; industries which pay premia in one period tend to be found to pay premia in later periods. Third, cross-country studies seem to indicate that industries which pay premia in one country are likely to pay premia in other countries.

The existence and persistence of such differentials does not fit easily within the framework of the idealized neo-classical model of labor market functioning; competition in labor markets should tend to remove such differentials over time. Here again, researchers are struggling to explain these observed phenomena. Some of the argument over alternative theories of labor market operations outlined above turns around the ability of the theories to explain these sorts of facts. Others use these types of facts to highlight the importance of studying carefully the institutional and social context within which given labor markets operate.

As noted at the outset of this chapter, the general message we wish to convey is that recent developments in the experience of developed countries have given rise to new theories about how labor markets may operate that deviate from the simpler versions of the neo-classical model. There is by no means closure on alternative single model, however. These newer theories should condition our expectations about how labor markets should operate in the absence of obvious distortions when we are looking at the operation of labor markets in the countries under consideration here. In addition, in what follows below, we will suggest several points at which some of the newer concepts might be directly relevant to the problems these countries face.

¹⁴For a discussion of persistent inter-industry wage differentials and tests of hypotheses attempting to explain them see R. Gibbons and L. Katz 1989

V. Perspectives on Labor Markets in Developing Countries

In this section we seek to provide a broad framework of topics concerning the operation of labor markets in developing countries. We hope this framework will facilitate the more detailed discussions of labor markets in the Near East countries and the role which labor markets play in the unfolding of the stabilization and structural adjustment processes.

We will intersperse relevant data on the Near East countries under each topic. We should stress that in drawing out data and conclusions with regard to these countries, we are heavily dependent on expert studies, in particular World Bank Country studies and other international agency studies. These documents are informative and well done but experience in the field suggests that they are often based on rather thin evidence from various data sources, often cleverly woven together by the analysts who must produce the required report and those on the ground often find them at variance with their immediate experience. In addition, there are often serious differences among data sources with respect to given measures. For example, with respect to Egypt, USAID's own analyst has noted in just the last few months: "There is a severe shortage of timely, accurate and detailed labor market information. There are enormous problems in reconciling differences among sources. Government of Egypt (GOE) produced statistics on the Egyptian labor force are inconsistent, untimely, and inaccurate. Labor force participation estimates vary among sources. Official statistics present a very different picture of the labor force than some independent studies"¹⁵.

A. Labor Supply

1. Population Growth and Age Structure

The most fundamental factors affecting labor market processes are the historic and contemporary rates of population growth and the resultant age structure of the population. Rapid rates of population growth not only put direct pressure on the total resource base of the society to sustain living standards but also require absorption of increasing numbers into the labor markets. Fluctuations in the rate of population growth generate different age structures in the population over time and across countries which imply different dependency ratios, i.e., the relationship of the working population to those not working, primarily those too young to work and those too old to work. As the age structure of the population evolves, labor market processes must adapt; the types of processes which are necessary to deal with a swell of new entrants, primarily younger workers, are quite different from those which are necessary to

¹⁵Goode, Jeffrey "Egyptian Labor Market Overview" June 28, 1992 USAID/CAIRO/EAS p.3

sustain an older working population, including movements in the age of retirement from the labor force.

The response of a given economy to economic policy changes may well differ significantly depending on the age structure of the population and the related labor market processes. For example, an economy faced with a bulge in young, new entrants into the labor market may find it harder to respond effectively to a stabilization effort which is compressing aggregate demand and generating short term unemployment. Thus in trying to understand the role of labor markets in a given country we should look carefully at the age structure and how it changes overtime.

Egypt's population growth rate from 1980 to 1990 of 2.4% was below average for the "other low-income countries" group in which the World Bank placed it but above the 2.2% average for the "lower middle-income" category. It had 39.2% of its population in the 0-14 age category in 1990 but is projected to have 24.4% in that age group by 2025, suggesting some easing of pressure on the labor market to absorb new entrants in the future.¹⁶

Jordan had an extraordinarily high population growth rate of 3.7% from 1980 to 1990. In 1990 45.4% of the population was under 15 and it is projected that in 2025 that percentage will be 39.7. All these numbers are well above the average for the lower-middle-income class in which the Bank classifies Jordan.

While Morocco's population growth rate of 2.6% from 1980 to 1990 put it above average for the lower-middle-income group in which The World Bank placed it, trends are such that the proportion below age 15 has been declining since 1970 and in 1990 it stood at 40.8%, but projections indicate that by 2025 it will be 26% under 15, below the projected rate for other countries in that group.

The population growth rate in Tunisia has slowed recently, coming below 2 percent in 1990 and is projected to reach 1.4 percent by 2011. This is indeed a sharp contrast to the other Near East countries under study here. However, there is a substantial younger population, as 50 percent of the population was under 21 in 1989.

In an already stressed economic situation the growth in population promises to place even greater strains on the Yemeni employment market. With an average annual population growth rate of 3.4% from 1980-1989, the World Development Report predicts a 3.7% growth rate from 1989-2000. Yemen has the second highest total fertility rate (the number of children a woman would have if she lived to the end of her childbearing years) in the world at 7.7. Yemen also faces a very young population with 48.8% under 15 and given the population growth rates, this proportion will continue to grow for a considerable

¹⁶Data from The World Development Report 1992 Table 26 p.268

period of time, keeping the labor market under extraordinary pressure to absorb new entrants.

2. Labor Force Participation

We talk about the relationship between the underlying population and the potential workforce using the term labor force participation rate (hereafter referred to as l.f.p.r.). Persons who are currently employed plus those unemployed but seeking work are defined as in the labor force. The ratio of the labor force numbers to the working age population is the l.f.p.r..

Understanding the forces which affect the l.f.p.r. is central to understanding labor market processes. Paying attention to how these forces may evolve in the near and longer future and how different policies may impinge upon them is important for anticipation of problems which may arise in labor markets or for the prospects of reforms which may improve social and economic welfare.

Clearly, l.f.p.r. varies by age, with the young and the old having lower rates than do those in the "prime age" groups. In developed economies in recent decades the l.f.p.r. of older workers have been falling over time. It will be important to pay attention to whether a given developing country is experiencing similar or opposite trends.

Empirical studies have shown that in most countries, developed and underdeveloped, those with more formal education have higher rates of labor force participation. Thus, as a developing country experiences increases in the extent of formal education, it can be expected that the overall l.f.p.r will rise. This will put added pressure on the labor market to absorb more workers while, at the same time, hopefully, increasing the average skill levels of the work force making it easier to absorb workers and increase output.

In almost all countries, there are sharp differences in the l.f.p.r. between males and females. In many developed countries, an upward trend in the l.f.p.r. of females has been one of the major features of the economy in recent decades. In looking at the likely evolution of labor markets in a given developing country, a major question is often: how will the labor force participation rates of females evolve? At the initial stage, as female participation rates grow, these workers are new entrants and, like young workers making first entry to the labor market, put particular pressures on labor market processes.

Clearly, cultural factors play an important role in the determination of the female l.f.p.r.. Religion is one very important such factor, but attitudes regarding female wage paying work outside the family clearly vary with religious groups across countries and even regions with a country¹⁷. Caste

¹⁷These issues are discussed in slightly greater detail in section V. C. 3 below.

structures can also influence participation rates of females and others. Cultural factors also surely play a role in the determination of the l.f.p.r. of older persons as well.

Two concepts related to l.f.p.r.s are that of "discouraged workers" and "added workers". These concepts were developed primarily in the context of cyclical fluctuations in developed countries. It was noted that the l.f.p.r. for different groups varied depending on the level of overall economic activity. Two different motives were suggested. As the unemployment rate rises during the economic "down swing", those searching for work find it increasingly difficult to find jobs and finally give up and stop searching, thus moving from the category of unemployed to that of "out of the labor force". These are referred to as "discouraged workers". On the other hand, in the "down swing" of the cycle as one person in a family loses a job or experiences reduction in earnings, a second person who was formerly out of the labor force may begin to search for a job or enter employment in order to maintain family income. These are referred to as "added workers". While these concepts were developed to refer to cyclical swings in labor force participation, they can also be applied to situations prevailing in developing countries in which there is persistent structural unemployment for a particular group or where stabilization or adjustment policies put downward pressure on employment or wages in a given sector. Fallon and Riveros, reviewing labor market issues across many developing countries, briefly discuss the role of cyclical changes in the labor market, and conclude simply that "here the evidence is that the discouraged worker effect dominates the added worker effect."¹⁸

There are two important points here: first, simply looking at either l.f.p.r.s or official unemployment rates in a given economy may give a false picture of the extent of employment problems if there are substantial numbers of potential but discouraged workers; second, when examining l.f.p.r.s over time one needs to take into account what the stage the economic cycle is at each period of time as differential proportions of discouraged or added workers make it difficult to pick out underlying trends.

Characterizing the l.f.p.r for females in Egypt appears problematic. One study, quoted by the USAID expert, gives female l.f.p.r for 1988 as 49.9 whereas the ILO Yearbook figure for 1990 is 11.9 and a World Bank publication puts the 1986 l.f.p.r for females as 8.2%. Part of the problem arises from what age cutoff is taken in defining the work-eligible population. The World Bank table uses 6 years of age as the lower bound, which is an unusually low age to use but is argued for on the grounds that child labor is quite prevalent in Egypt. The World Bank data shows that the l.f.p.r for females increase by about a third from 1976 to 1986 and that it is two and one half times greater in urban areas than in rural

¹⁸P.Fallon and L. Riveros, 1989 p.15

areas.

We were not able to find any information on the l.f.p.r in Jordan, particular no breakdown of the labor force by gender.

The l.f.p.r. of females in Morocco has been rising - from 6% in 1965 to 13 % in 1988 - but it still remains low so that females accounted for only 20% of the labor force in 1988¹⁹. Recently released data on the urban population gives an l.f.p.r. for females of 25.1% in 1990²⁰. Since the education rates are low relative to other countries, it should be expected (as discussed in Section V.C.3 below) that Morocco's l.f.p.r will not rise as fast as in other Near East countries, but this is a topic which deserves more careful research attention.

The l.f.p.r for females in Tunisia has been rising slowly, from 18.9% in 1975 to 20.3% in 1989. Given the essentially 100% enrollment rate in primary education and the rapidly rising enrollment rate for females in secondary education, one would expect the l.f.p.r. for females to keep rising in Tunisia in the near future.

We could find no information on l.f.p.r. for Yeman.

We will return to the topic of l.f.p.r. for females in a more thorough discussion of gender issues below.

3.Location, Rural-Urban migration, Rural-Rural migration

The supply of labor offered to the market can be dependent on the location of the population. The major distinction have been made between rural and urban location. Clearly, the differences in labor supply between these two types of areas is partly a function of the structure of labor demand, but it can also be related to cultural factors as suggested above.

In rural areas, female working opportunities may be greater because agricultural is often a predominately family enterprise or because female labor in particular types of agricultural activities is more socially accepted than is female labor in urban industries.

The earliest models of economic development, principally attributed to Arthur Lewis²¹, stressed the idea of "surplus labor" (labor whose marginal product was zero) in the rural areas and the process

¹⁹Another source says females constituted 35% of the labor force in 1986. See M. Salahdine 1991 p.2

²⁰Royaume du Maroc, 1992

²¹Lewis, W. Arthur 1954

of development was one of industrialization which increasingly absorbed the "surplus labor" in productive work. Though it did not necessarily follow from the Lewis model, the process of migration from the rural to urban areas was generally expected to be associated with that sort of development path.

Harris and Todaro²² built on the Lewis model to suggest that the rural to urban migration process could shift the apparently employed rural low-productivity workers into openly unemployed workers who had migrated to urban areas and "queued up" for the high wage jobs in the urban sector. There continues to be considerable concern about increasing urbanization of the population, since urban location may engender considerably higher infrastructure costs than in rural areas (sewage, electricity, transport), a conversion of underemployment into open unemployment, and a resultant greater potential for social and political discontent becoming organized.

Research of the 1970s and 80s has, to a degree, tested the Harris-Todaro model and found in many cases outcomes did not match the predictions of the model. Researchers have developed some more complex explanations of the processes of rural to urban migration and its outcomes, but it remains true that for many developing countries urban growth exceeds general population growth, so these issues and their relation to labor market processes remain important.

In recent years, there has been increasing interest in the extent to which pressures in the urban labor markets may lead to reverse migration, from urban to rural markets.

The table V-1 in Appendix B summarizes the trends in urbanization of the population in the Near East countries from 1965 to 1987. In all of the countries under consideration there has been a continual increase in the percent of the population classified as urban. The highest degree of urbanization in 1987 was in Jordan where 66% of the population were in urban areas, followed by Tunisia where 54% of the population is urban. The lowest degree of urbanization is for Yemen. The sharpest increase in urbanization has been for Morocco where the percent urbanized has gone from 32% in 1965 to 47% in 1987.

It is apparent from these data that rural to urban movement continues in all of these countries and puts pressure on urban labor markets and social infrastructure to handle ever greater numbers. Whether some of the changes under structural adjustment could stem these flows is unclear. In a few countries in other regions, improvements in agriculture have actually reversed the rural to urban flow.

In many countries, rural to rural migration is significant and in some cases more significant than, rural to urban migration. Labor mobility is important to labor market adjustment processes and therefore

²²Harris, J.R. and M. Todaro 1970

understanding the factors which affect rural to rural migration may be important in certain countries at given times. In situations of structural adjustment it could be that shifts toward expansion of tradeables would be facilitated by movement of rural population from one region to another, e.g., when terms of trade move in favor of export agriculture and appropriate land is available in a different region than the surplus agricultural worker population. We have not been able to ascertain whether rural to rural movements might be a significant consideration in the Near East countries under consideration, but the possibility that they are can't be dismissed.

4. International Migration

The extent and character of international migration can have important effects on the operation of labor markets in both the sending and the receiving countries. It has clearly become a topic of enormous importance to the Near East countries under consideration. We therefore devoted a considerable amount of space to this topic.

When outflows of labor are at the high levels experienced by most of these countries they can serve as valve for excess labor supply, reducing unemployment, however they can also be differentially selective by skill level and sector and therefore cause labor shortages both in the short and in the long run. The flow of remittances back from the migrant laborers can have significant effects on the home country: generally as a source of foreign exchange and specifically in the effects on the demands for goods and service which the households receiving the remittances make. These goods and service demands are reflected in labor markets in terms of demands for the types of labor necessary to supply them. When conditions in the countries which have hosted migrant laborers shift, these flows can be reversed generating strong labor market effects as returning laborers must be absorbed and losses of remittance flows force readjustment.

Though there were major flows of migrants from the Near East countries under consideration to Europe (especially from Morocco and Tunisia), the oil boom in the region really stimulated the massive flow of both unskilled and skilled workers. At the peak of migration in 1985, it is estimated more than five million migrants worked in the Middle East with 70 percent drawn from other Arab countries. After 1986 the oil boom ended, work opportunities slowed, migrants began to return home. The Gulf War caused a serious disruption in these flows²³.

Migration of agricultural workers was particularly high accounting, by some estimates for 60

²³An excellent review of the effects on the Gulf War on migrant workers is provided in Addleton 1991

percent of migrants.²⁴ This created labor shortages in certain periods of peak demand and in certain areas. The effects were most notable in Egypt where it is estimated the real wages in agriculture rose by 11 percent per annum between 1974 and 1982.²⁵

The backflow of remittances from the migrants to these countries have been substantial. In Table V-2 in Appendix B we provide data on official remittances expressed as a percent of total export and import values for the years 1973 through 1987. These data show that remittances have been a very important but highly variable source of foreign exchange for these countries. For example, for Egypt, remittances were equal in value to only 11 percent of exports in 1973 but they rose to 123 percent of exports in 1979. They then declined to 69 percent of export values in 1981 only to rise again to 126 percent of export value in 1984 and then decline again to 86 percent in 1986.

For Jordan, remittances were nearly double the value of exports in 1978 and they stayed over 100 percent of exports value until 1987 when they fell to 80 percent. For Tunisia remittance flows have not been as large relative to either export or import values as for the other countries, tending to range about 20 percent of export values at the most.

For Morocco remittances start at a low level as a percent of export or import values but rise through the period so that by 1987 they were equal to 56 percent of export values. The 1990 remittances into Morocco (not shown in the table) totalled some \$2 billion and provided the largest source of foreign earnings.

There are two simple points here. First remittance flows are a very important source of foreign exchange for these countries but, second, they are a highly fluctuating source.

Unofficial remittance flows are judged to be as large or larger than those going through official channels. Remittances through informal channels can result in inflationary pressures, as the country can thereby lose control of the supply of credit, governments must balance the temptation to try to capture some of the remittance flows through taxes with the recognition that this may serve to drive the flows into unofficial channels. Morocco seems to have recognized this problem. It has made many efforts not only to encourage the repatriation of earnings, but to do so through official channels. Efforts have included the setting up of a labor bank for overseas workers, duty-free stores in the northern ports, subscription to treasury bonds with preferred rates, the ability to set up a convertible dirham bank account with no minimum balance, and (under planning) special industrial parks for foreign worker investment.

²⁴United Nations Food and Agricultural Organization 1990

²⁵Handoussa, H. and G. Potter 1991 p.5

The migrant labor outflows - which affect the labor supply in the internal market of the sending country - generate the remittance flows back which can have other effects on the internal labor market. Remittances used for consumption can affect the demand for labor in those sectors. For example, it is suggested that some of the substantial growth in the demand for livestock in Egypt - and the resultant shift of land and labor into the sector of agriculture - may in part be due the shift in preferences of consumers facilitated by the remittance flows. In addition, remittances used for investment have had substantial effects. One of the prime choices is in housing. Studies of Egypt, Tunisia, and Morocco indicate that this may reach more than 20 percent of the remittances²⁶. Land may be another vehicle for remittance investment. Overall, the preference seems to be for non-agricultural investments such as workshops, retail distribution and transportation²⁷, but agricultural investment may be predominant in some regions or villages. In Egypt it is suggested that the remittance flows raised the demand for non-farm labor creating 350,000 jobs in rural areas in construction, manufacturing, finance and transport, with the construction demand contributing to rises in construction wages²⁸.

In addition, it has been argued that the remittance flows played a role in the shift of agricultural technology toward less labor intensive methods; they provided the capital for investment in farm machinery and shifted through their effect on demand shifted the use of livestock from production to consumption²⁹.

A more subtle way in which the massive migration of workers may have affected the structure of these economies has been suggested by one analyst: the labor outmigration to other Arab countries can be viewed in part as an alternative to increased trade in labor intensive tradeable goods between the labor surplus Arab economies, such as the five countries we review here, and the capital surplus Arab countries, i.e. the oil-rich countries³⁰. For example, while Egypt might have exported wheat to Saudi Arabia, it instead exported its agricultural workers who, to a degree, produced wheat (very inefficiently) in Saudi Arabia. She notes that the migration to the capital-rich but labor short countries made sense for

²⁶United Nations Food and Agriculture Organization 1990 p.26

²⁷United Nations Food and Agriculture Organization 1990 p.27

²⁸A. Richards in H. Handoussa ed. 1991 p.79

²⁹United Nations Food and Agricultural Organization 1990

³⁰Shafik, Nemat June 1992

the production of non-tradeable goods, e.g. services, the question is why there wasn't more trade among Arab countries in tradeable labor intensive goods.

She makes the more complex argument that the biased policy in the labor surplus countries toward import-substitution strategies, which tended to favor capital-intensive industry and over-valued exchange rates, made the outmigration of labor even more likely as it provided an outlet for essentially exporting their resultant unemployment. Thus the opportunity for labor migration may have promoted avoidance of the hard choices for structural change to production of tradeable goods, choices which now these economies, as we discuss below, are struggling to implement.

One question one might have about these arguments is, however, that it is not clear that these economies would have been able to compete at world prices in provision to the capital rich Arab countries of labor intensive tradeables. Perhaps, however, the capital rich Arab countries would have been willing to give preference to the Arab labor surplus countries had these countries effectively offered the labor intensive. the migration may have become a substitute for trade in goods which might have otherwise developed.

It is clear that the study of international migration flows needs to differentiate clearly the skill level of those migrating. In most cases, migration tends to be higher for those with higher skills. This is because those skills are more highly valued in the receiving countries and because the more highly skilled have better information about opportunities abroad and means to meet costs of transfer. However, in some cases, receiving economies have needs for low skilled workers to do types of menial, dirty or dangerous jobs that indigenous persons are less willing to do or which employers in labor intensive, low wage industries need in order to avoid shifts in technology or organization required to maintain comparative advantage when wages for indigenous workers rise.

Jordan appears to be an interesting case in which there is a considerable outflow of higher skilled workers to other countries in the region at the same time that there is an inflow of lower skilled workers, particularly from Egypt, to Jordan. In response to the pressure of return migration from Kuwait and Iraq, Jordan is said to be attempting to be make it harder for the Egyptian workers to renew their stay and to get Jordanians to take the jobs the Egyptians held.

At some stages developing countries will themselves require immigration of highly skilled workers in order to run complex technology or provide high level administrative and managerial skills.

The process of industrialization often involves foreign investment which requires critical skills

from the investors countries to get processes underway.³¹ Attempts are made over time, usually as the educational system of the country matures, to force "indigenization" of the high skill jobs held by foreigners. This occurred in the immediate post-colonial period for many countries, but has continued into the present period more widely in some of the Near East countries following the oil booms (Oman is said to be a prime example) and in Asia on a selective industry basis, e.g., following initial development of natural resource base and forward integration from the resource base.

In the period following the oil price booms there were significant impacts on middle level skill supplies in the sending countries, e.g. Egypt in construction³² and agriculture and in many of the Asian countries, as the oil-rich countries drew off construction and other middle skill workers to execute their development projects.

These international flows of labor have impacts on the labor markets of both the receiving and sending countries which deserve more careful analysis. The impacts extend beyond the labor markets as well, particularly as a result of the significant flows of remittances. Recent experience with both Europe and the Near East indicates that these flows can introduce an element of instability into the economies of the sending countries when conditions in the receiving countries shift and workers flow back and remittance flows decline. When balance of payments constraints are one of the primary factors which generate stabilization and adjustment policies and when remittance flows are as sizeable and variable as they have been for several of these countries, there would seem to be little question that these issues deserve more careful attention and some imaginative thinking. How should policies (including those concerning labor markets) be adapted so that they are robust under stresses generated by high and variable remittance flows? We are not aware of major studies on this problem, though it may indeed be that they exist.

5. The Skill (or human capital) Structure of Labor Supply

Analysis of labor market processes must, of course, differentiate the various types of skills available in the total labor force.

The system of formal education is usually the most prominent feature in determining skill development, above all by influencing the extent of basic literacy and numeracy in the population. This

³¹See for example R. Hollister and Wong, P.K. 1989

³²See R. Assad "The Structure of Egypt's Construction Labour Market and It's Development since the Mid-1970s" in H. Handoussa, 1991.

is the most significant way in which the public sector intervenes in the determination of the supply of labor.

The extent of primary education has generally been held to be the most fundamental issue and studies have broadly concluded that in most developing countries the highest rates of return to investment in formal education are to be found in extending access to primary education. A recent study provides some dissent to this widely accepted view. "...urban poverty appears to be particularly closely associated with lack of schooling above the primary level and it is mainly secondary level qualifications which provide desirable labor market entry points".³³

Of course, sweeping generalizations on such an issue are unwise as each country's situation must be looked at separately to determine where the greatest payoffs to added resources may be. The payoffs may be different for different groups, e.g. according to gender, as will be discussed below. An important consideration is the extent of grade repetition and dropout. Those that leave primary education early often lose what little literacy and numeracy skills they have accumulated.

Training programs both within and outside of firms are potentially important influences on the skill distribution of the labor supply. In the past, apprenticeship systems, formal and informal, have been important ways in which the transition from school to work was accomplished and, in some cases, monopoly control over particular types of skill supplies was exercised, particularly through formalized certification schemes. It would be useful to determine the extent to which such training programs have been important in the countries under consideration.

In some countries an important issue has been whether there is underinvestment in skill training within firms because firms fear losing their investment in any skills that are not specific to their firm when workers are hired away by competitors. In a few places, e.g. Columbia and Singapore, public interventions have been attempted to compensate for such underinvestment by taxing firms and then subsidizing the training, either within firms or in specialized training programs. (It is ironic to note that this approach has been touted by Bill Clinton for the U.S. during the Presidential campaign). We do not know whether this has ever been attempted in any of the Near East countries.

Most countries have developed some sort of public sector training programs, sometimes tied to formal education institutions, sometimes in collaboration with employer associations, sometimes in collaboration with organized labor (We understand that something along this line is being attempted in Yemen, with assistance from the Germans). In addition, in many countries, proprietary training

³³Rodgers, Gerry edit. 1989 p.13

programs have developed which provide a variety of low, middle and, in a few cases, high skills training. Understanding the role of these various types of training programs is important to a full assessment of the operations of labor markets in the process of economic development

B. Labor Demand

The demand for a given type of labor is almost always derived from the demand for a product or service, rather than a demand directly for the labor service itself. Thus the character of the markets for those products and services plays a large role in determining the demand for labor.

1. Sectoral Structure

Since the development process is itself one of changing economic structures, attention is often first focused on the distribution of economic activity by sector.

An important feature is the degree of "openness" of the economy, i.e. the proportion of economic activity which involves international trade, both exports and imports, and the determination of in which sectors an open economy has comparative advantage. Certainly when we consider how labor markets operate under policies of stabilization and adjustment, these policies almost always involve adjustments in import and export markets and the associated movements of labor across sectors.

Long term debates over development policies have in the past centered on the degree to which attempts should be made to try to insulate the economy from the vagaries of international trade through various forms of protection. Changes in the policies which affect international trade and finance for a given economy can have profound effects in labor markets. A distinction which is in much current usage is between sectors involving "tradeables" (goods which are, or could be, exported or imported) and "nontradeables"

Major sectoral breakdowns often focused on are primary commodities (agriculture, natural resources), industry (most importantly manufacturing), services and the public sector. While, as noted above, there is labor mobility across these sectors, the forces which act on labor demand are often sharply different across the sectors.

In order to give an example of major sectoral features of one of the economies under consideration, we provide in Appendix B a table (Table V-3) drawn from Assad and Commander 1990 which, while only carrying data through 1986 through 1986, illustrates crucial points.

The first major feature to note is the declining relative importance of agriculture. The share of agriculture in total employment in Egypt declined from 50.5% in 1973 to 32.7% in 1986. The second feature to note is the relatively small role of manufacturing employment (13.9% in 1973 to 11.2 % in 1986) and no sign of dynamic growth in this sector. Third is the growing importance of the government

as an employer (15.9% in 1973 to 18.9% in 1986). On this last point, the USAID analyst says "Based on the 1990 Fergany report, 57 percent of all urban wage earners are employed in the public sector, with 37 percent in the government and 20 percent in the public enterprise sector. Forty percent of all wage earners in rural areas are employed in the public sector. In addition the public sector is the dominant employer of educated labor. In urban areas 74 percent of persons holding an intermediate or higher degree are employed in the public sector. In rural areas more than 80 percent of the educated labor are in the public sector."³⁴

We found far less detailed information on sectoral distribution for the other countries.

Information on the sectoral distribution in Jordan is inconsistent. One source (U.S. Dept. of Labor) gives a distribution of about 8% of the employed are in agriculture, 41% in industry and 52% in services. Another (the World Bank) estimates 7% agriculture, 21.9% industry and 70.5% services. It has been estimated that 48% of the formal sector workers are employed by the government. Multiple job holding is said to be high in both public and private sectors.

We have not been able to find up to date information on the sectoral distribution of employment for Morocco for the country as a whole. There are no such data reported in Yearbook of Labor Statistics or the ILO and the latest breakdowns given in other sources end in 1982. The trend from 1960 to 1982 showed a decline in the proportion in agriculture. There are some indications of increases in agricultural production in the later half of the 80s but no figures on employment in this sector though the rising export performance of this sector is often mentioned. For the urban population, however, newly released information shows 3.8% in agriculture, 29.3% in industry, 7% in construction and 59.5% in services. Interestingly from 1989 to 1990 employment in textiles and leather was estimated to increase 21.5% and employment in construction to increase by 14.8%³⁵.

In Tunisia employment is undergoing a gradual shift from agriculture into services. Data on this is provided in Appendix B in Table V-6. Agriculture accounted for 37% of employment in 1975 but had declined to 26% by 1989. Services grew from 34% in 1973 to 40% in 1989. Industry grew from 29% in 1975 to 25% in 1989.

The three leading sectors in Tunisian growth are agriculture, textile exports, and tourism. Although agriculture is the leading absolute employer, both textiles and tourism have been growing to provide new employment. Indeed, according to official sources, tourism supports (not employs) 1 million

³⁴Goode op. cit. p. 10

³⁵Royaume de Maroc 1992

Tunisians. Unfortunately, 1991 did not promise to be a good year with a sharp decline in tourism and export demand, although some benefit would come from an exceptional harvest (easing grain imports). Agriculture has been hit by three years of drought prior to 1990 followed by torrential rains and hoof and mouth disease. The government sector including both employment in parastatals and regular government services is said to account for about 25% of total employment.

We have found no information on the sectoral breakdown in Yemen.

a. Agriculture

Since agriculture is of diminishing importance in terms of the proportion of total employment in the five Near East countries we have examined, one might decide that agricultural labor market issues are not of great importance for them. However, this is not correct because for most of the countries there is some agricultural export potential. (Morocco is already making moves in this direction and Tunisia has always had important agricultural exports). In addition, weak agriculture contributes to continued rural to urban migration which puts pressure on governments to maintain and extend urban amenities and may create greater political pressure to the extent that it fosters open unemployment in urban areas.

Perhaps most important is the potential for improving agriculture in order to reduce the expenditures on imported food stuffs. In most of the countries not only are food stuffs imported, thereby putting pressure on the balance of payments, but in addition the prices of food are controlled and food subsidies strain the government budget.

Many of the Near East countries import cereals. Table V-5 in Appendix B shows the substantial levels of cereal imports and cereal food aid imports. Jordan, which imported 1,491,000 tons of cereals in 1990 had imported only 171,000 tons in 1974. Even Tunisia which is a grain exporter had substantial imports and aid. This shows that attention to agriculture and agricultural labor markets can be important in affecting the external balance even though agricultures share in employment is diminishing.

Often these imports are generated as part of subsidized food programs which offer cheap food to the urban populations. This, in turn, leads to low prices for domestic producers - for example, a 1989 FAO study found that most countries in the region prices offered wheat producers were significantly below international prices. This adds to the squeeze on domestic producers, who not only receive a low price for their output but may also face higher wage costs in the face of both domestic and international migration.

Important to the allocation of labor in both rural and urban areas is the environment that surrounds the agricultural sector - an environment that includes a variety of policies on subsidies (both for output and on inputs), credit, taxes on outputs, distributive networks and the like.

Turning to the labor situation itself, we can observe a number of trends. Charts 1 and 1A in Appendix B show the growth in the agricultural labor force in most of the Near East countries. Both Jordan and Tunisia peaked in 1980 and are expected to continue their decline. Egypt due to its high absolute labor force numbers is experiencing growth in number of agricultural laborers in spite of a declining proportion of the labor in agriculture. Morocco and Yemen Arab Republic (YAR) are also experiencing steady growth in the number of laborers. Democratic Republic of Yemen (PDRY) peaked in 1970, but after a decline will return to that level in 2001.

Chart 2 shows the ratio of arable land to the economically active rural population. The primary variables that can explain this in the Near East situation are either increased mechanization and/or a declining population involved in agriculture. Jordan has experienced the strongest, sustained growth in this figure since the 1960s. Democratic Republic of Yemen (PDRY) has also grown, but at a slower rate. Other countries seem to have peaked in certain years and declined thereafter - Egypt (1970), Morocco (1970-75), Tunisia (1970) and Yemen Arab Republic (1975).

Another key indicator in examining the position of labor in agriculture is the real agricultural wage. Charts 3 and 4 show this data for Morocco and Egypt. In the case of Egypt, as in the case of the YAR (data not shown) real wages increased substantially. Morocco on the other hand, stagnated or declined (depending on the deflator used).

As mentioned in the section on migration, the FAO found no indications of a labor shortage (due to migration) in the Near East countries. Indeed, a World Bank study in 1986 found that there were 275 person-days available per acre in the YAR, while only 60 person-days were required.

While there may not be a sector-wide shortage of labor, there are cases of segmentation and other rigidities which may induce a local shortage. The FAO, working from the presence of involuntary employment explains these phenomena:

"There are two main reasons for involuntary unemployment. First, farm labor is usually fully employed during the peak season. During the off-season, farmers are willing to pay workers higher wages than they need to at that time (as there are others willing to work for less) because these workers also promise and/or actually work during the peak season. Such arrangements imply that labor markets do not clear in every season. Second, labor markets in the region are often complex. Complicated transactions involving exchanges of labor, credit, animals, machinery and other factors of production usually require that parties have good personal knowledge of each other. Migration is very often highly localized: one village may have substantial out-migration,

while a neighboring one may have much less."³⁶

This type of local migration works in favor of small farms, who can overcome labor immobility by either increasing the use of family workers (especially women) or else work out exchange agreements with neighbors.

One trend in agriculture, which the FAO attributes in large part to emigration, is the growing number of women in the agricultural labor force. Chart 5 shows this for some of the Near East countries. The only country experiencing a declining trend is Jordan - all others show increases. This does not capture nearly the full picture, as the traditional gender division of labor has women working on food crops for consumption while males work on cash/export crops. However, evidence indicates that there may be an increasing number of women in wage labor and a break down of gender lines in the absence of males. We will return to the discussion of women in agriculture when discussing gender issues more broadly below.

b. Other Sectoral Considerations

Turning to more general considerations with respect to the sectoral composition of employment, where a natural resource base is important, the demand for workers can be highly specialized, as in petroleum and gas or broader and more basic as in mining, or timber extraction. Petroleum has been important for Egypt and Tunisia and phosphate mining for Morocco.

Industry, of course, presents a wide variety of labor markets and differences in features of labor demand. The heavy industries - iron and steel, chemicals, vehicle production, ship building - are quite different in labor demand characteristics than are lighter industries such as food processing, textiles, electronics. Within industry as a whole, increasing attention has been paid to the importance of the size distribution of firms and its influence on the character of labor demand. Large firms appear to pay higher wages, are more likely to be organized, tend to have more skilled labor forces. But there are often striking cross-country differences in the size distribution of firms operating in the same sector. Most recently contrasts between Korea and Taiwan in this regard have been highlighted, Korea characterized by a few large horizontally integrated firms and Taiwan by many small firms with complex cross-contracting structures, yet both achieving high rates of industrialization and sustained high growth.

Of course a very important feature of the structure of industry is the extent of public enterprises. Studies in Egypt and Tunisia have indicated very inefficient staffing patterns in the public enterprises in general. In countries in other regions, however, research suggests that sweeping generalizations about

³⁶United Nations Food and Agriculture Organization 1990

the relative inefficiency of public enterprises as compared to private enterprise are dangerous: examples of highly efficient public enterprises have been described.

In services and the public administration, the character of the technology and availability of other factors of production is of lesser importance than in the other sectors, though of course this is changing over time.

A much grosser distinction of sectors, but one that has been important in the literature on development is that between the rural and the urban sectors. It has already been mentioned above that rural-urban migration has been an important concern. Rural should not be taken as being total synonymous with agricultural. A very important part of the process of economic change is the growth of non-agricultural employment in the rural sectors. From 1976 to 1986 the share of nonagricultural employment in rural areas in Egypt increased from 25% to 40%. The demand for labor in some of these activities is related to the agricultural base in that it is related to the provision of support in the forms of inputs to the agricultural processes and the support in the form of marketing of outputs from agriculture. However, in addition other services and light industry, often starting from the handicraft stage, become important sources of income and development of skills for the rural labor force. Rural families are often simultaneously engaged in farm and non-farm economic activities. This aspect developing country labor markets has not been extensively studied.

Another division of sectors which has received a great deal of discussion over the last two decades is the distinction between the "formal sector" and the "informal sector". Without worrying for the moment about the precise definition of the "informal sector", the issue here is the degree to which labor markets operate differently in the two sectors, whether the character of labor demand is sharply different, with, for example, more flexible wages and employment in the "informal sector". The "informal sector" has been variously characterized as simply a "sink" which absorbs excess labor in downturns or as a "parking lot" for those seeking entry into the "formal sector" or as source of vibrant enterprise from which new firms and skills emerge or which enhance the efficiency of the "formal sector" firms through subcontracting and "out-sourcing" (shifting aspects of production what were carried on with the large firm to suppliers who produce components in smaller firms). The differential between the "formal" and the "informal" sectors in the response of labor demand to the cycle of economic activity or to policy induced changes in the economy have recently received the attention of researchers³⁷.

As already indicated, the character of technology in a given sector is a critical determinant of the

³⁷. See for example G. Rodgers, edit., op. cit., and Harold Lubell, 1991.

demand for various types of labor. Within a given industry there is usually scope for choice among techniques of production which are more or less labor intensive and which utilize different mixes of various skills levels. The process of development usually involves technological transfer across countries, as well as, indigenous innovation. The rate and character of technological transfer can be critical in affecting the rate of economic growth and international competitiveness. Increasingly, researchers have studied more carefully the variety of such transfer-processes and factors which affect them, though relatively little attention has been paid to the role played by different types of labor.

2. Relative Supply and Prices of Other Factors of Production

a. Land

In the rural sector, the most important other factor of production which influences the level and character of labor demand is the availability of arable land and the rules and practices of land tenure which influence land utilization. Limitations of land ownership have in some cases led to serious undercultivation of extensive tracts of arable land and resultant inadequate demand for rural labor e.g. Zimbabwe, Argentina. In other situations, overcrowding on land and use of inappropriate technology, fragmentation of land ownership, has led to degradation of agricultural productivity, too much labor being used with too little land - the classic labor surplus situation of the Lewis model. Land reforms in Egypt are said to have spread land utilization more widely, though ownership remains concentrated.

b. Capital

Concern about the relative supply and costs of capital has long been a central theme in development economics. At the aggregate level, models of the rate of saving and the related limits of capital supply as the effective constraint on growth, or as imbalanced with the rate of growth of the labor force have been among the oldest and most persistent way of characterizing economic growth paths.

Recently, at the more micro level, there has been concern about distortions in the price of capital relative to price of labor as leading to a choice of technique that are not sufficiently labor intensive. References to this problem are found in documents on both Egypt and Tunisia. Low prices of capital leading to inappropriate choice of technique can occur both through uneconomically low interest rates, subsidies for capital equipment or through special access to import licenses biased toward capital goods.

Beside the price of capital per se, there are concerns about capital rationing limiting the credit necessary for the growth of small enterprises and thereby stunting the growth in demand for labor in such activities. Some of AID's micro-enterprise efforts are concerned with problem. In Egypt, the Productive Families Program is said to have been successful, to a degree, in providing this sort of assistance, although the World Bank suggests that the size of loans be reduced in order to better reach the smallest

producers. Capital rationing can occur through failures in the development of appropriate institutions or through explicit policies of rationing access to foreign exchange. Innovations and reforms which change these features can have effects on the level and the sectoral distribution of labor demand.³⁸

c. Other Inputs

Labor is combined not only with land and capital in production process but also with intermediate inputs, i.e., materials which have already passed through one stage of processing but will be combined with other factors of production to make a final output. The demand for labor can be highly dependent on the price and availability of various intermediate inputs. This is most obvious in the cases in which the intermediate inputs are imported. The demand for some types of labor in certain sectors can be sensitive to changes in policies which affect access to imported intermediate inputs. In many dedicated export zone industries components are imported and assembled and then re-exported.

Descriptions of the complex of subsidies for inputs, quotas for outputs, artificially low prices on outputs are provided in documents on Egypt³⁹. Structural adjustment reforms in both Egypt and Morocco have sought to remove many of these distortions but the interactions are so complex that it is difficult to predict what the employment effects in any given sector might be⁴⁰

3. Demand for Human Capital Exports and Imports

The importance of international migration has already been introduced in the labor supply section above. It should be recalled here as well that can be demanders of human capital imports as well as suppliers of human capital exports. Particular skill shortages can arise and affect the level of demand for complementary labor inputs. Such shortages can arise because a country has lost human capital at a given level through exports of those skills to other countries or because the local supply of such skills is limited and access to supplies of such skills from other countries is somehow rationed.

C. The Market Interaction

The classical, textbook, model of the labor market is one in which the supply of labor on the one side and the demand for labor on the other side interact to determine the level of wages and the extent of employment. At a given wage rate an excess supply of labor puts downward pressure on the wage

³⁸See H. Handoussa, 1991 and A. Zouari 1990 for discussions of some of these problems in Egypt and Tunisia.

³⁹See H. Handoussa, 1991 and World Bank, Egypt... 1991

⁴⁰See for example World Bank 1991 p.100

through a process of bidding by the unemployed workers offering to work at a lower wage. Excess demand puts upward pressure on the wage with employers bidding for workers by raising the wage and inducing more workers to enter employment. When neither excess supply nor excess demand exist, the level of the wage and the employment are in equilibrium and the labor market is said to "clear".

1. Compensation

The textbook model of labor market interaction leads us to focus on wages and hours or earnings and numbers employed. It provides us with a simplified picture of how the level of these variables is determined. However, the characteristics of employment involve more than just the wage rate and the number of hours, days, months of employment. There are other forms of compensation: bonuses, pensions, vacation and sick leave, access to special goods or at lower prices (meals, housing, clothing, luxuries). In addition, there are non-monetary characteristics or working conditions: dirty and dangerous work, overtime and shift work, repetitiveness, status, rank, promotion, supervisory structures or autonomy, location. Most data collected on labor market interactions provides information on wages or earnings and on employment or hours. There is, in general, very little data collected on non-wage compensation and on non-monetary characteristics. We know from what little data there are that there are substantial differences in non-wage compensation across countries, across sectors in a given country, between "formal sector" jobs and "informal sector" jobs and that these change overtime within a given country. Of course the non-monetary characteristics of jobs also vary across all these dimensions.

The theory of compensating differentials has a long history in economics. The idea is that jobs with less desirable characteristics will have to pay higher wages in order to induce workers to take them and that jobs with more desirable characteristics will pay a lower wage as the supply of workers to those jobs will be greater. In practice, in developed countries, it has proved much harder to find empirical evidence supporting the theory of compensating differentials than had been expected, in part, because there is so little appropriate data with which to test the theory, or perhaps because in fact workers really do not put much value on the non-monetary characteristics.⁴¹

More sophisticated theory points out that workers will have different preferences, e.g., some be very averse to the risk of injury on a job and some relatively unconcerned, and that therefore, for some workers it will take less wage compensation to offset a negative job characteristic. A process of sorting of workers among firms will occur in the market with, for example, those with lower risk aversion going

⁴¹For a counter-example developed by sociologist using a clever measurement scheme see Jencks, Christopher, L. Perman and L. Rainwater 1988. These authors find rather sharp differentiation in values attached to non-monetary job characteristics.

toward jobs with greater risk. This is called "hedonic wage theory". This sort of sorting would tend to dampen observed wage differentials and, in any case, call for more sophisticated analysis to try to determine the importance of non-monetary characteristics of jobs.

Similarly, in recent years, more sophisticated and complicated theoretical inquiries have raised questions about what factors are responsible for differences in both wage and non-wage compensation⁴², e.g., why do wages rise with seniority, why do firms provide pensions? Much of this is related to the "efficiency wage theory" mentioned in section IV. B. above.

The important point with respect to analyzing labor markets in developing countries is that we should not focus solely on wages and hours, particularly when making comparisons across countries or across sectors. An important current example is the puzzle about the extensive labor unrest in Korea in the late 1980s occurring after two decades of growth in the real wages of workers in industry, which is historically unequalled in any country. Some recent analysis focuses on the non-wage characteristics, such as apparently longer hours and high risks of injury compared to other countries, which have persisted even as real wages rose rapidly and on status hierarchy in the work place. We know that major differences exist between "formal" and "informal" sector jobs in many of these non-wage characteristics and that these are important in understanding movements of labor between these sectors.

2. Disequilibrium and Adjustment

While the textbook model of the labor market stresses the interaction of supply and demand leading to equilibrium values of wages and employment such that there is neither excess demand or excess supply at the market wage rate, some of the major theories of the development process have stressed disequilibrium in labor markets as indicative of particular stages of development.

As already noted above, perhaps the earliest model of the development process in the modern era was that of Arthur Lewis which stressed a disequilibrium in labor markets with surplus labor held in the rural or agricultural sector slowly absorbed by the growing industrial sector, the process continuing until an equilibrium is established in which the marginal product of labor is equalized across the two sectors.

The Harris-Todaro model extended the Lewis model but also stressed the cross-sector disequilibrium in labor markets, in this case giving rise to rural-urban migration and sustained disequilibrium in the urban labor market in the form of "wait unemployment".

"Efficiency wage" models in the development context stressed the apparent disequilibrium on the market in which it would appear that surplus labor was available to work at lower wages but employers

⁴²A relatively readable overview of developments in this line may be found in Hutchens 1989

persist in a higher wage because it enhances worker productivity, through nutrition or more stable work patterns. Thus the apparent disequilibrium can in fact be a sustainable equilibrium in the face of surplus labor.

Under the textbook model, of course, wage differentials across labor markets, either sectorally or geographically, are the signals for labor to be reallocated toward the higher wage sector. The initial disequilibrium in the labor market is followed by an adjustment process resulting in a reallocation and a new equilibrium with greater total productivity of labor.

As has been noted above, under stabilization and structural adjustment, such disequilibrium wages play a role in reallocating labor toward those sectors of greater productivity which is critical to the adjustment process. The initial regime which led to the need for stabilization and adjustment is viewed as distorted by misguided policies accompanied by distortions in wage rates in various labor markets and the resultant misallocation of labor.

Theories of labor market segmentation suggest that there may be barriers to proper adjustment processes. The segmentation most important for the Near East countries under consideration is that between the public and the private sector. Up to the early or mid 1980s access to public employment was apparently relatively easy since the public sector became the predominant employer. More recently it has become more difficult, however. Access to public sector employment is clearly highly prized, in the earlier period because of relatively higher wages but in more recent years as relative real wages have probably fallen, probably because of job security, fringe benefits and a tolerance of multiple job holding. As will be reiterated many times below, for all these countries a major problem in structural adjustment is increasing efficiency in the public sector which in most cases would imply reducing public employment. The record of the past few years indicates, however, that it is extremely difficult for the governments to cut public employment and they have generally followed the somewhat easier route, politically, of allowing real wages to be eroded through inflation.

Segmentation can also occur because of barriers of ethnicity, religion, culture, and geography. There are some suggestions in the documents on these countries that there may be some such segmentation, as between Berber and non-Berber in several countries or among religious sub-groups in Egypt. But perhaps the most important form of labor market segmentation is that according to gender. This is an important and complex subject so we devote a separate sub-section to it here and come back to it later in Section VI.

3. Gender Issues

The female labor force, as a percent of the total labor force has grown in all Near East countries

over the last 25 years, but at different rates. The largest absolute growth can be found in Tunisia where women went from 9 percent of the labor force in 1965 to 23 percent in 1985. Morocco also experience high growth going from 11 percent in 1965 to 20 percent in 1988. Israel has the largest percentage overall, and it increased from 29 percent in 1965 to 34 percent in 1988. Egypt and Oman have relatively low rates with Egypt's growing from 7 percent in 1965 to 10 percent in 1988. The Yemen Arab Republic (YAR) and the Peoples Democratic Republic of Yemen (PDYR) had comparable rates, 7 percent (1965) to 13 percent (1988) for the YAR and 8 to 12 percent for the PDRY.

We have already reviewed labor force participation rates of women above. Recall that they are generally quite low in the countries under consideration.

It is important to look at some of the possible reasons for low labor force participation and differential access to employment. Collier lists four gender related "differential constraints" reminiscent of our early discussion of agricultural policy. These are: discrimination outside of the household (e.g. lack of ownership rights and hence access to credit), gender specific role models (i.e. "girls copy women, boys copy men) that hampers the spread of innovation across genders, asymmetric rights and obligations (e.g. women work on male controlled fields - there is less of an incentive to work hard), and the burden of reproduction.

Drawing upon Appleton et. al.'s work on women in Cote D'Ivoire⁴³ Collier argues that the critical variable in female participation is their education. Education, however, does not tell the entire story as when the study controlled for education, it still found women less likely than men to be in the labor market. Hence, one of the conceivable explanations is gender discrimination in the labor market, which Collier sees manifested in three of the observed gender biases (p.9): "1. Controlling for education, women in the labor force are less likely to work for wages than are men; 2. Parents are less likely to invest in the education of girls than of boys; 3. Women are less educated and hence are less likely to be in the labor market." What Appleton, et. al. cannot clearly determine is whether lower female participation is indeed due to discrimination or different preferences.

The Ivoirian study found a number of other characteristics of the females in the labor market (these may or may not pertain to some Near East countries). Unlike the Western nations, there was not a significant gender based difference in pay (controlling for other characteristics). The presence of children had no significant effect on female participation indicating that child care was probably taken

⁴³ Collier does note that there are (unspecified) differences in the anglophone and francophone labor markets in Africa.

care of by the extended family. Collier does note however: "nevertheless, women are less likely than men with similar characteristics to enter the labor market and one interpretation of this is that employers discriminate against women."⁴⁴

Collier argues that compulsory primary education is a critical government intervention to redress gender inequality. In the case of secondary education, female under-performance on the entrance exam has been correlated with poverty, hence a program designed to raise incomes in poor households, complemented by government awareness of this problem (resulting in broader entrance criteria) could substantially reduce the barriers at this level of education to women. Finally, removal of discrimination in the labor market (again through government intervention) will increase the incentive to the household to invest in female education.

Not only will education ease mobility overall, but as Collier notes "education is likely to ease structural adjustment into export agriculture because it appears to accelerate the transition to the new efficient pattern of resource allocation when prices or technology change."⁴⁵

In light of this strong emphasis on gender inequality in education, it is useful to look at gross enrollment ratios by gender for the Near East countries. Data on enrollments are presented in Appendix B, Table V-6.

In terms of primary education, Jordan, Morocco, Tunisia, and Oman have increased female enrollment by greater percentages than they increased total primary enrollment. Indeed, this may bear out Collier's assertions as all of these countries experienced a substantial increase (despite very low initial levels in Oman and Jordan) in female participation indicators.

For the two Yemen's female enrollment increased, but not at a rate comparable to that of male enrollment increase. Perhaps this differential is related to lower relative changes in female participation Yemen compared to other countries.

Egypt, however, seems to provide a counter example. Though it achieved a significant increase in female primary enrollment, it is a country which showed little change in female labor force participation.

The secondary education patterns seem to confirm these observations -again Egypt has a substantial increase, and a very high level, in female enrollment rates which is not reflected in labor force participation increases. Observers note that the government is the primary employer of educated females

⁴⁴P. Collier, 1990 p.11

⁴⁵Ibid p.13

and the slow down in the growth of public employment is likely to have strong effects on the rate of growth of female employment.

This cursory analysis suggests grounds for a more extensive study of the education factor in promoting female participation. Data indicated above may not adequately capture sectoral and regional difference nor the full extent of participation. As Toth discusses, some (conservative) regions of Egypt can have a range of female participation, ranging from 11 percent of the women engaged in plowing to 82 percent engaged in poultry raising.

Given the Egyptian discrepancy above, and the fact that the Arab countries as a whole have the lowest female l.f.p.r.⁴⁶ of any regional group of countries, it would be worthwhile, for this region, to examine other variables that hinder female participation.

For example, urban location is one such variable. If we look at the growth of the urban population (in Appendix B Table V-1), Tunisia and Morocco have high rates of increase in urbanization and increases in female l.f.p.r. Fallon and Riveros, in addition to citing education (discussed above) and the socio-cultural situation (discussed below) as factors, argue that urbanization and economic cycles play a role. As males migrate, women are granted a better opportunity to engage in participate in rural areas.

On a general level, surveys showed women comprising 33 percent of the hired agricultural laborers in the Egyptian delta, 25 percent in Jordan, and 40 percent in Morocco, while studies found women engaged in "men's work" in Yemen when men were not around and FAO in Egypt found women engaged in plowing, a traditional male task. It may be, however, that remittances from absent males dampened the need for females to move into traditionally male parts of agriculture, but the picture on this is not clear.

Rural women do, however face a significant number of constraints that males do not. For one, they are expected to maintain a household and raise children in addition to their outside labor. This "second shift" may place strains on the women and be detrimental to the health and well-being of them and their children. Furthermore, the family ties of women makes them considerably less geographically mobile than men and creates segmentation in the labor market.

Women in agriculture face not only the distortions in the sector as a whole but a number of gender based distortions. They may be denied access to government subsidized and supplied inputs on the basis of their gender. Illiteracy, as Collier notes is generally higher among women, hence denying them access to technology and other information. Tradition often places a barrier between male extension

⁴⁶Toth, p.213

agents and female farmers, denying them access to these resources. Furthermore, Collier notes that there is also a gender bias on the private transfer of information with role models falling along gender lines (reenforcing existing patterns). Women also suffer from less access to credit as they both have lower cash income and smaller assets. Finally, women's restricted experience in farm management makes their assumption of this role tenuous. The permanency of these distortions remains to be seen. It is conceivable, given male migration, that there will be a relaxation of some discrimination such as access to government subsidized inputs (or the removal of subsidies may put women on a more equal footing).

Examining Egyptian agriculture, Toth develops an explanation based on cultural boundaries and economic patterns. Critical to the cultural division of labor are the codes of purdah, rules which cover modesty, honor, and shame. This division has come under strain on both ends of the economic spectrum, but not as much in the middle. Upper class families, seeking to emulate Western patterns have allowed women to work (this may not hold for all Arab countries and resurgent fundamentalism could reverse this). Among the lowest income strata, the household budget constraint has dictated breaking with tradition.

Toth also argues that employers have a vested interest in the gender division of tasks; by designating certain jobs "women's work" they can pay lower salaries (for a variety of reasons), even should men return to perform the job. It should be noted that Hansen and others have found in Egypt that women's wages to hold at a steady fraction of men's wages (one half to two thirds) despite wage fluctuations.

Toth also highlights regional variations as he argues: "in regions of the Arab Middle East long accustomed to agriculture, such as Egypt, the Levant, and Yemen, the relationship between genders has displayed a greater complementarity and equality. Yet elsewhere throughout the region, a pastoral bedouin culture has promoted an asymmetrical atmosphere of strong male domination and docile female subservience."⁴⁷

Given the low growth in female participation in Egypt and Yemen, this generalization seems to be confined to the agricultural sector. Toth, in fact, distinguishes among agricultural regions within Egypt, arguing that some are more prone to a bedouin influence. Surveying a number of studies of gender patterns, he develops a rough pattern of norms "it can be seen that men are expected to perform the hardest tasks - plowing, weeding, hoeing, thinning, fertilizing, irrigating and certain harvests - and women are responsible for physically easier chores in and around the homestead. But women are not

⁴⁷Toth 1991 p.213

on such crops as wheat, cotton, and rice."⁴⁴

Thus, we can see a number of variables affecting the gender distribution of labor. Toth also maintains that women maintain a critical path to exit, in the face of an intransigent system: "...women and children also have more options. Women have the alternative of turning to home-based activities such as animal husbandry and cottage industries as a response to paltry wages in agriculture."

⁴⁴Ibid p.219

VI. Detailed Review of Labor Market Response to Stabilization and Structural Adjustment

Introduction

In this section we draw heavily on the collective work represented in the project of the Economic Development Institute of the World Bank entitled *Labor Markets in an Era of Adjustment*⁴⁹.

In section III above, we sketched out very roughly a simple picture of how labor markets might be expected to operate under stabilization and structural adjustment. Now we turn to filling in more detail about those processes, bringing in empirical evidence wherever possible about how these processes have operated and in particular attempting to point to relevant features of the Near East countries of interest.

In the idealized picture of section III under stabilization, demand compression is expected in the short run to depress wages and/or increase unemployment. In the longer term there should be a return to full employment and a better growth path for earnings. Under adjustment, shifts toward the tradeables sector and away from the non-tradeables are sought, with shifts in relative real wages playing the role of encouraging mobility of labor across sectors. The central issue is whether labor markets operate to facilitate these shifts or to constrain and impede them.

Moving beyond this very simple sketch, it is important to note that the labor market may be functioning reasonably well but unemployment may persist. We noted in section IV above "efficiency wage" and other newer theories which have suggested persistent unemployment and sticky wages could occur even in competitive markets. In addition, poor labor market outcomes could be due to malfunctioning in other markets: we noted use of expensive labor-saving technology in agriculture and industry due to artificially low capital costs and to special protection under tariff and investment regulations.

Furthermore, the functioning of the labor market needs to be put in a broader perspective. The market-clearing wage may be achieved, but yield earnings inadequate to purchase even a minimum basket of goods needed for survival - indeed, in some cases the minimum wage has been judged to be below this threshold. Here considerations of poverty and possible intervention to ameliorate it enter policy consideration.

⁴⁹The project consists of a symposium of 19 papers (12 country studies and 7 issue papers) and an Overview paper. The Overview was written by Susan Horton, Ravi Kanbur and Dipak Mazumdar. In addition there is an early excellent overview paper by Peter Fallon and Luis Riveros (Fallon and Riveros 1989) which we have utilized extensively.

In instances of stabilization, the role of the labor market is to maintain the level of output while expenditure is reduced. As national spending is cut, there will be downward pressure on output prices, which should translate to lower wages and, with certain circumstances, there will be the same employment and output at lower prices. What can hinder this adjustment is downward rigidity of wages, either due to unionization (discussed below), indexation of wages mandated by law or in labor's contract with employers, or "efficiency wage" or "fair labor practices" considerations, as mentioned in Section IV above. The extent of this unemployment will depend on three factors. As enumerated by Edwards³⁰ these are: (1) the magnitude of the tariff reduction [the policy pushing the sn.ñ], (2) the amount by which the price of nontradeables goes down; and (3) the employment elasticities in the different sectors. If falling real wages are accompanied by a fall in the share of wages in national income, the shift from workers with a high marginal propensity to consume (lower saving rates) to the profit receiving groups with lower propensity to consume (higher savings rates) will further decrease aggregate demand, worsening unemployment ³¹.

Policy involving the retrenchment of government spending and public enterprises have usually been part of both stabilization and adjustment policy regimes. Substantial public sector employment growth characterized most of the Near East countries under consideration during the late 1960s, the 1970s and, in some cases, the early 1980s. A major feature of the late 1980s has been the slow down or halting of public sector employment growth in these countries under the pressures of stabilization or adjustment policies.

Under structural adjustment³² a shift to tradeables and exports is a major objective and smooth labor market functioning will allow the shift of labor from nontradeables into tradeables with the

³⁰Edwards, 1988

³¹Taylor and the WIDER country studies found this to occur in a cross-section of the countries they studied. Taylor adds: "a partial offset...may come from increased exports as domestic producers frustrated by weak local markets search for sales abroad. But typically, extra exports plus any substitution responses which may occur are not large enough to restore the overall level of activity." (Taylor 30-31) For more critical evidence and discussion on wages and devaluation in a macro contraction see Horton, et. al., 1991 18-24.

³²For a narrative on the evolving need for adjustment see Fallon and Riveros 1989 pages 2-9.

appropriate signalling. The major obstacles to this functioning may be real wage rigidity and labor immobility which can result from such factors as labor market segmentation, unionization and other institutions, wage indexation and other factors. We shall examine this in much more depth below - taking a closer look at segmentation and mobility (especially along gender lines), the role of unions, government employment and other factors. Although there is no evidence of complete segmentation, there are substantial obstacles to mobility in some cases.

Understanding the full range of reforms undertaken is important because wages are only one factor of many in determining competitiveness - for example, in the Southeast Asian countries, wages account for only around a third of value added. Hence, issues such as government spending and its effects on the interest and exchange rates can be crucial to the adjustment process, as well as reform in complementary sectors such as exchange rate and financial.

A. The sequence of reforms

A topic concerning the adjustment process as a whole which is only beginning to receive attention is the sequencing of reforms³³. The placement of labor reform in the order of change is critical for three reasons: 1) the general pervasiveness of labor market distortions in LDCs, 2) the fear of unemployment often retards critical reforms, and 3) labor market distortions are usually hard to remove³⁴. Given political economy concerns, countries will often leave labor market reforms to the end of the sequence. The variance of labor market distortions across sectors (e.g. the general failure of a minimum wage in agriculture) may mean that there will be a major block to sustained and effective reform if the labor market is not addressed.

Using a model to determine the best sequence in terms of welfare effects, Edwards concludes that the favored tariff's first sequence is not always welfare dominant. Instead, Edwards argues for a case-by-case in depth approach that takes account of the intricacies of the particular economy. This approach is also endorsed by Freeman who argues that institutional reforms in the labor market, e.g., with respect to government regulation of employment and the role of unions, can only be made intelligently in light of the detailed features of each country's social and economic structure and history³⁵.

³³ A complete discussion of this can be found in McKinnon 1991.

³⁴Edwards 1992 p.3-4

³⁵Freeman 1992

We see this problem of sequencing dramatically illustrated in the case of Egypt. Two major factors in restructuring public expenditure are the overall level of guaranteed employment in parastatals, and public services and administration, and the continuing high costs and target inefficiency of food subsidy programs. Attempting to cut food subsidies and public employment at the same time creates tremendous potential for social protest and conflict and has appeared to stall both types of reform. In our concluding section, we make some suggestions about sequencing of labor market reforms which might help to alleviate these problems.

We will return to this question of sequencing in section VII as we consider the distributional effects of stabilization and adjustment reforms and the related political economy.

B. Sectoral Shift

1. Wage Differentials and rigidities

Simple theory dictates that wages in the expanding (under structural adjustment) tradeables sector should signal the attraction of labor to this sector. However, as Horton, et. al. point out, these intersectoral differentials may exist for other reasons.

One primary cause of these differences is institutionally restricted wage levels at both ends. As we noted in Section IV above, "efficiency wage" considerations often lead to high wages in large formal sector firms, whether in tradeables or non-tradeables, but these may not constitute a signal to shift to these sectors as access is limited and excess supply will not exert any downward influence on those high wages. Other rigidities such as segmentation along gender lines (discussed in more detail in Section V above and in Section VII below) may also be quite important in distorting the differentials. Thus, it should not be presumed that wage differentials will be as sensitive an indicator of the need for sectoral reallocation as standard theory would suggest.

In order, therefore, to better gauge how well the labor market is working, Horton, et. al. suggest looking at changes in output markets while paying close attention to complementary input markets. As an example of this procedure, one USAID analyst (Rucker) of Tunisian adjustment looks at investment applications and finds a hopeful sign of export growth potential because in the last few years the capital/labor ratios in the export sector is considerably lower than in other sectors and than it had been in the past. It would be useful to see if this emerges in improved employment in this sector in the near future.

Another example comes from Morocco. It appears that there was a significant increase in exports of the agricultural commodities and a concomitant increase in male employment in the rural sector. At the same time the lesser growth in manufactured exports did not have a discernable effect

on urban employment, perhaps because it was offset by employment loss in contracting sectors and the overwhelming continuing rural-urban migration.

The basic variable that will come into play in the shift from tradeables to nontradeables and the relative importance of these distortions is the depth of the shift required based on preexisting conditions. Crucial in the shift between tradeables, especially the export sector, and nontradeables, is the shift of labor between the two sectors. As indicated above, the basic conclusion, including cases of economy wide wage rigidity, is that there will be short-term unemployment while capital is immobile but a long term gain in employment as capital moves, provided that export industries are the more labor intensive. As noted just above, Rucker believes there are signs of this occurring for Tunisia in manufacturing. However, as Edwards and Edwards note, "in most countries wage rigidity is not generalized, but rather affects a certain subgroup of the economy."⁵⁶ Hence, Edwards and Edwards develop the theoretical employment effects under a number of scenarios⁵⁷. They find that in the cases of an importable sector covered by minimum wage and capital account liberalization that there will be higher employment in exportables, lower in importables and ambiguous effects on non-tradeables and the overall level of employment.

The central point is that in the presence of labor market distortions, trade liberalization policies, usually considered to be beneficial, may generate nontrivial (short run) unemployment problems. This appears to have been the case in Chile. We find no mention of clear evidence of this for the Near East countries under consideration. There have been declines in employment in various sectors in Morocco and Egypt during the structural adjustment period but it is not clear how much of this can be tied to labor market distortions as opposed to general deflationary impacts. This is a worthy topic for further study.

The case of wage distortions in importables that are associated with the levels of tariff protection should also be considered. In the short run liberalization will lead to increased unemployment and depressed wages in other sectors as labor is released from the importables sector. Although this may disappear in the long run, there is a political economy issue at work here as has been noted: "labor, the factor of production that is supposed to gain from freer trade, is negatively affected in the short run, and the long run gains are hard to perceive when compared to the initially

⁵⁶Edwards and Edwards 1990

⁵⁷ The following summary is drawn from Horton, et. al., 29. A similar discussion can be found in Edwards and Edwards.

distorted situation of the economy."⁵⁸ This type of situation may have occurred in Morocco following liberalization. We shall return to this political economy question in our discussion of compensatory and safety net programs below.

2. Skills mismatch

One critical effect of the shift between sectors is the unemployment that will be generated by the skill mismatch for workers seeking to move from nontradeables to tradeables. This is documented by Riveros in the case of Chile, where there was a growing wage gap for both skilled and unskilled labor between the two sectors and an increasing return to general human capital in the expanding sectors⁵⁹. There are some suggestions that this may have been the case for Morocco in the manufacturing sector where, according to one Bank document, the emerging export industries in apparel, textiles, leather goods and electronics seemed to have increased the demand for low-skilled, higher than average wage female workers while the declining industries released higher skilled workers.

Assad and Commander⁶⁰ discuss the construction industry in Egypt in some detail. This is an industry which boomed during the period of high oil revenues and to a lesser extent due to remittance flows. At the same time an outflow of middle level skilled workers to the Gulf States gave rise to indications of shortages in these skill grades in construction and rising construction wages in Egypt. In the post adjustment period this sector has seen a sharp drop in employment and wages.

Another way in which skills mismatch can emerge is in the relationship between the skills being generated by the educational system and those which are most important for the growth of the goods and services producing sectors, both private and public, in general, and the export sector in particular.

There is relatively little detailed discussion of this issue in the literature on the Near East countries under consideration. Some of the material on Tunisia alludes to the inappropriateness of the types of education produced to the needs of the emerging manufacturing and tourist sectors, but no detail is provided to substantiate these claims. Hendoussa complains, for Egypt, that "given the current structure of the educational system,...the distribution of new entrants to the labour force will

⁵⁸Horton, et. al.

⁵⁹Riveros 1990

⁶⁰R.Assad and S. Commander 1990

be skewed [such that there will be] an excess in the supply of labour with qualifications that do not match the requirements of the productive sectors of the economy"⁶¹. A World Bank study⁶² documents the very high proportion of Egyptian government expenditures on education which goes to the higher education and advocates reallocation toward basic education, but does not tie this argument to any evidence regarding mismatch with skills required in the labor markets. Careful study of the flow from educational institutions into the labor market could yield important information on which to base reallocation of educational resources to generate a more appropriate skill mix in the labor force.

3. Experience with: sectoral shifts

As indicated in section V above, some broad information is available about the sectoral distribution of employment in the Near East countries under consideration, but with the exception of somewhat impressionistic conclusions regarding Morocco, there is not strong evidence relating sectoral shifts to experience under structural adjustment.

Two major trends might be pointed to. First, there is a general trend of reduction in the relative importance of employment in agriculture, though in absolute terms agricultural employment continues, and is projected, to grow in Egypt, Morocco and Yemen. Second, as already noted, the trend of increasing employment in the public sector has been slowed considerably in all the countries.

With respect to Morocco, as already mentioned several times above, the force of structural adjustment seems to have been felt most strongly in agriculture where there is evidence of a substantial share of the increase in exports being accounted for by agricultural products and rural employment rising. In addition, growth in exports in some manufacturing sectors has been noted but the specific employment effects have been difficult to isolate. Reductions in government expenditures seem to have been associated with a decline in construction.

In Tunisia reference is made to efforts to strengthen the tourist industry and export agriculture, but the latter is subject to highly variable weather conditions. Manufacturing has been growing slowly but with no definitive sign yet of positive response to structural adjustment policies.

There is some evidence of improvements following the introduction of several reforms in Egypt post 1986. Explicit consumer subsidies were cut from 13 to 6 per cent of GDP and the budget deficit was cut from 24 percent of GDP in 1982 to 16 percent in 1988. Partial removal of price controls is believed to have resulted in "improved allocative efficiency at the production stage,...

⁶¹H. Handoussa and G. Potter 1990 p.8

⁶²World Bank Egypt 1991

elimination of black market profits by middleman,... reduction in the rate of growth of consumption... and savings to the government budget. Examples can be found in electricity, gasoline, public transport textiles and a variety of food products."⁶³ Increased autonomy given to public enterprises has allowed them to reduce their surplus labor force and raise labor productivity and increase export performance.⁶⁴ However, aside from the reduced public enterprise employment there seem to be no precise figures on how these reforms have affected the distribution of employment and earnings.

It is useful to note what can be learned from the experience of other regions of the world with respect to sectoral shifts. The Asian countries seem to have accomplished industrial growth while undergoing structural adjustment. In Latin America and Africa, however, the shift into tradeables seems to be mostly a function of declining employment in government and an increase in agriculture. In this regard the Latin American experience seems to be closer to what -- we can surmise from scanty information -- what has occurred in the Near East.

In Latin America and Africa, manufacturing seems to be hampered by the fact that tariff protection is removed at the same time the exchange rate is depreciated. This has led to some reversal of rural-urban migration in Ghana with a similar type pattern in the Ivory Coast. Egypt however, is judged by Assad and Commander to have little potential for this type of shift due to disincentives in most of the agricultural sector related to the food subsidy schemes⁶⁵.

4. Segmentation

Segmentation presents a serious obstacle to a smooth sectoral shift. It is argued that this can assume a variety of forms, for example along regional and gender lines. But the most obvious form of segmentation in the labor markets of the Near East countries under consideration is the segmentation between the public sector and the private sector. In all of the countries, the public sector is the predominant employer in the formal segment of the economy. In Egypt in 1986 nearly 30% of total employment was estimated to be in the public sector and 44% of urban employment was public sector. In Tunisia, 25% of employment is in the public sector and in Jordan 48% of employment is estimated to be public sector.

⁶³H. Handoussa and G. Potter 1991 p.14

⁶⁴Ibid p.16

⁶⁵These generalization about experience in other regions are drawn from Horton, et. al.

Wage setting and job security conditions are clearly different between the public and private sectors and their response to stabilization and structural adjustment will clearly be quite different for that reason. We return to the public sector response below.

In the case of geographical segmentation or immobility, Fallon and Riveros looking across a wide set of countries found no strong evidence that this was an important factor in slowing the adjustment process. Indeed, international migration and rural-urban migration in the Near East countries show a mobile workforce in this regard, although with increasing political considerations in the hiring of migrant workers there may be some barriers enacted to the former⁶⁶. There is also evidence that return migration from urban to rural can occur (e.g. Ghana, Nigeria).

Segmentation can arise also through government labor market regulations. Minimum wages set differentially across sectors or differentially enforced, job security restrictions on hiring and firing, guaranteed access for particular groups can all act as barriers to free mobility of labor. Fallon and Riveros did find some evidence of this in Latin America. It should be noted that enforcement of these regulations may be considerably higher in some of the Latin American countries than in some of the Near East countries (e.g. Morocco may have a minimum wage law but it is not effective). Ultimately, this must be gauged on a country by country basis. We return to the role of regulations in more detail below.

5. Gender

One of the chief manifestations of segmentation is the gender division of labor⁶⁷ as was described in Section V. Collier, in his paper for the Horton group, argues that gender is a critical variable in determining mobility (between sectors among other things) and factors impinging on female mobility need to be taken into account when designing a structural adjustment program.

A further bias to sectoral shift is that men may dominate in export oriented agriculture. In addition to the reenforcement provided by the men-boy and women-girl role models, the extension agents tend to target men. This means that they ignore a large group of potential entrants (women)

⁶⁶ It should be noted that in Egypt "the bulk of the rural population live near to urban areas thus rendering the rural-urban distinction somewhat obsolete." (Fallon and Riveros, 16).

⁶⁷ For the most part in this paper, especially the works by Collier, the FAO, and Toth focus on rural/agricultural women. More work needs to be done on women in the urban environment and the public and formal sectors. A starting point (not reviewed here) may be Susan Joekes, "Working for Lipstick? Male and Female Labour in the Clothing Industry in Morocco," in Haleh Afshar, ed., Women, Work and Ideology in the Third World London: 1985.

into the export sector and hinder labor mobility.

An understanding of the initial gender allocation across sectors is critical in order to effect a relatively smooth adjustment and to understand possible barriers. Collier (p.16) notes that labor allocation by gender tends to be skewed with women concentrated in food production and the provision of such non-tradeables as marketing but under-represented in the public sector, private formal sector and in formal export agriculture. Collier (p. 17) argues that "this gender skewness matters for structural adjustment. First it implies a differential requirement for the genders to be mobile. If, for example, female labour happened to be skewed away from the export sector (as it is in some countries) then the labour mobility into that sector which structural adjustment requires will place a higher requirement upon the mobility of women than of men. In such a case structural adjustment would be doubly impaired: the agents whose mobility is most required would be those who are the least mobile."⁶⁴

An important variable in gauging whether issues of gender immobility will arise is the tradeability of food. Three scenarios arise.

If food is protected or is an import-substitute, production will decline during adjustment and female labor must be able to enter other sectors easily.

If food is an export or unprotected import substitute, production will increase, increasing the demand for labor.

If food is a non-tradeable (rural areas) and unprotected import-substitute (urban areas) then there will be an ambiguous employment effect but an increase in urban consumption requiring increased marketing (which necessitates increased access to resources such as credit for women).

Collier concludes (p. 19) that "because of this variability in the classification of food, the skewness of male and female labour between the three analytically important sectors [import substitute, export, non-tradeable] can be expected to differ radically between countries: sometimes successful structural adjustment will predominantly require women to reallocate their labor, sometimes it will predominantly require that land and capital be reallocated to the sector in which women are already concentrated." Not only does this skewness give rise to different requirements for mobility among the genders, but it can also interact with the differential mobility to result in strong distributional and allocative inefficiencies.

⁶⁴ Indeed, useful further work could analyze gender breakdowns and possible barriers to effective adjustment in each of the Near East countries.

In Section V above we have reviewed at length a number of factors which can affect the level of labor force participation and the gender distribution of employment across sectors, industries and among tasks within industries and the evidence we could gather with respect to Near East countries in these regards. The key issue here is, however, to determine how female participation (and the relevant barriers) affects mobility between sectors, among other factors, in adjustment.

One indication of such gender mobility factors can be found in unemployment rates. A trend observed by many, and confirmed by Horton, et. al. is that of "luxury unemployment," where those openly unemployed tend to be secondary workers in the household (i.e. not heads) or the secondary or higher school graduates. As Horton, et. al note "Egypt represents an extreme case where a survey of two cities found that more than 90 percent of the unemployed were new entrants to the labor force, and that 80 percent had intermediate level of education or above. Educated female unemployment is a particular problem in Egypt, since there are few opportunities outside the government sector." ⁶⁹

There are two factors compounding the difficulty of discerning a clear trend in the character of unemployment among women. The first is the cyclical influences associated with the "discouraged worker" or "added worker" effects. In periods of reduced general economic activity, low real wages and skill mismatches may result in "discouraged workers" no longer seeking employment. Another response, however, is the "added worker," the household's secondary wage earner who will enter the market when the primary worker loses employment or has a serious reduction in earnings. The second factor is the long term trend of increasing female participation. As more women seek to enter the labor force, there is likely to be a period of unemployment while they search for their first job. Thus unemployment rates may rise because of these increasing numbers of new entrants.

Women's allocation of time between income generation and household activities is much more sensitive to the household income level than males. Collier argues that more attention to the added worker effect would make compensation and safety net programs more effective: "to date, public interventions to mitigate the social costs of adjustment have ignored the household as being the natural unit of income security and have instead concentrated directly upon attempting to redeploy those who have lost their jobs through targeted credit and training." Indeed, this is a strong argument for safety net programs to be more integrated with the adjustment efforts (an argument to be examined in greater depth below) as it would require removing some of the constraints on female mobility.

6. Wage differentials, wage rigidity and labor mobility

Theoretically, one of the major causes of unemployment during adjustment may be real wage rigidity.

For the Near East countries there is no clear evidence of real wage rigidity but the data on wages are so scanty it is difficult to tell. In Egypt analysts conclude that real wages have declined in the late 1980s, except, perhaps, for agriculture and private sector manufacturing. Movements in wages in the construction sector appear to have responded to shifting market pressures. Rises in public sector wages have been held down while inflation erodes their real value.

In Jordan government salaries have been frozen and private sector wages are said to have been falling since 1988.

For Morocco the wage data are sketchy. We found no discussion of consistent indicators of trends in wages, though the World Bank has concluded that the general wage structure is flexible, but they noted, in data from the 1970s, considerable dispersion in wages across branches of industry and by firm size. This wage dispersion within the formal sector is, however, a common finding, even in developed countries as noted in section IV above, and does not in itself indicate lack of wage responsiveness.

In Tunisia it has been observed that real wages have declined since 1983. One analyst has argued that the combination of the minimum wages regulations and the actions of unions have favored those subject to the minimum wage (about 11% of the labor force) relative to the rest of the labor force. This provides some hint of wage rigidity but would have to be investigated more thoroughly to determine whether it has been a considerable impediment to structural adjustment.

For Yemen, the World Bank report concludes that information is so poor it is not possible to calculate a meaningful movement of real wages over time.

In the wider reviews across many countries, little evidence of wage rigidity has been found. Fallon and Riveros found "little prima facie" evidence of downward wage rigidity as wages fell in 9 of 16 countries they reviewed. In discussing the fall of real wages, they differentiate among regions: "real wages have tended to fall in sub-Saharan Africa and in some Latin American countries, but less so in South and East Asia."

Horton, et. al. observe that in the 12 countries that their study covered there was no evidence of real wage rigidity and consequent unemployment. They cite the extreme case of Chile: "where unemployment was highest and persisted the longest, real wages fell dramatically".

Theory dictates that wages should be higher in tradeables in order to attract labor. This has

been empirically observed, but Horton, et. al. note that not every case studied showed that relative wage changes supported structural adjustment. Fallon and Riveros address this issue along the agricultural vs. manufacturing and construction distinction. What they find is that: "intersectoral wage differentials do respond to the forces of supply and demand in a fashion consistent with imperfect mobility between sectors... In particular, the overviews for Brazil, Colombia, Egypt and Peru all argue that intersectoral differentials respond in a more or less traditional way to supply and demand disturbances."⁷⁰ This is not always true, as mentioned in the case of Chile (Riveros), above. The general argument is, "that structural adjustment policies aimed at reallocating labor between at least rural and urban areas should allow for a consequent rise in the wage paid in expanding sectors. In the extreme, where labor markets are totally segmented this will act as a real obstacle to the success of such policies. There is little evidence for this, however, with respect to unskilled labor anywhere in the overview."⁷¹

7. The Informal Sector

The informal sector has a role to play in the adjustment process. For example, a product of adjustment may be firings in the public sector and the private formal sector (as legislative controls are relaxed and/or tariff protection disappears)⁷². More common, however, is the reduction in employment associated with reductions in the public spending. In these cases, labor unable to afford the luxury of unemployment will have to move to sectors characterized by easy entry such as agriculture or the informal sector. Increased entry into non-tradeable sectors will depress wages, but in cases of tradeables (possibly agriculture) the wage depression which would result from increased supply of labor may be ameliorated by the effect of increased demand for tradeable outputs. Demery and Addison (p. 27) emphasize "In the context of adjustment, assistance should concentrate on those informal activities producing tradeables. The focus should be on small-scale manufactures and nonpersonal services."

We found no systematic studies of the informal sector in the Near East countries, aside from a rather dated piece on Tunisia. There can be little question that the informal sector has been absorbing

⁷⁰Fallon and Riveros p.26-7

⁷¹P. Fallon and L. Riveros 1989 p.27

⁷² One should note that this does not always result in firing. There are other paths out of formal sector employment that may predominate - for example, the shift towards non-wage employment in Argentina and the shift to the non-contract sector in Brazil.

increasing numbers in the urban areas of the countries as the urban labor force has continued to grow faster than the combined increase in employment in the public sector and the formal sector.

Handoussa estimated that the informal sector accounted for 43 percent of non-agricultural employment in 1986 and had been growing over the previous decade at 2.8% per annum⁷³. As mentioned several times above, there is some hint in Morocco of growing urban employment in non-tradeable informal areas by those released from previous jobs associated with retrenchment in the public budgets.

There is a general hypothesis in the literature that growth in the formal tradeable sector will be linked through growing sub-contracting and support service relationships to segments of the informal sector.

To what degree informal sector activities in Morocco are linked to the growing export sectors is simply not clear in the published information. Undoubtedly growth of tourism in Tunisia has given some stimulus to some informal sector activities, but there appear to be no data to support this supposition.

With respect to support to the informal sector to enhance its ability to contribute to the adjustment process, A World Bank report states: "Plenty of examples of successful pilot project schemes [of provision of small scale credit, technical assistance and training, especially to women] exist in Egypt, in both urban and rural settings".⁷⁴ USAID undoubtedly has relevant experience from its studies of support for micro-enterprises which might be drawn upon.

Clearly, some studies of the informal sector and how it changes over time for countries in the Near East would be quite timely.

In the absence of such studies we turn to evidence from other regions. An unusual case was observed in the early 1980s in the case of Malaysia where average earnings in the formal sector increased as short term workers and those at the lower end of the pay scale were released and moved to the informal sector. For the economy as a whole, however, there was a decline in real wages as not only those leaving the formal sector entered the informal sector, but a higher proportion of new entrants followed this path. Evidence of "crowding" in the informal sector was found in Costa Rica, Chile and Brazil during the 1980s.

In terms of the situation in the informal sector, Fallon and Riveros found an overall mixed response to inadequate employment growth or job loss. For example in Latin America they found rising informal sector employment in Brazil and Argentina despite no increase in open employment

⁷³H. Handoussa and G. Potter 1991 p.17

⁷⁴World Bank Egypt 1991, p. xxiii

while in Chile informal employment fell while unemployment doubled. The African picture is more sketchy due to data limitation but there has been unambiguous growth of the informal sector in many countries. In Asian economies they found the informal sector expanding to take up the slack left by insufficient modern sector growth.

There has been some study of entry into the informal sector in response to job loss. Hirata and Humphrey conducted an in-depth study of industrial workers in Brazil⁷⁵. They identified three factors affecting workers job search patterns following job loss: 1) strength of identity with particular occupation, 2) worker's position in household (e.g. head), and 3) real opportunities available (which are partially affected by experience and skill). They found the transition to the informal sector was tempered by these and other factors. First, they found women more likely to go into employment in the informal sector (into jobs such as domestic service and cleaning). They found skilled workers more likely to remain in open unemployment and marital status proved to be a significant variable as single mothers suffered household pressure and thus were more likely to go into the informal sector.

8. Response of the public sector

The public sector is the major employer in all of the Near East countries under consideration, ranging from roughly 25% in Tunisia to 40% in Jordan. Particularly for the higher skills levels, the governments wage setting policies will have a critical effect on wages in the private sector. How the public sector's employment and wage policies respond under the changes associated with structural adjustment is clearly critical.

In all of the Near East Countries under consideration there has been an attempt to restructure government budgets by constraining the growth in public sector employment and slowing nominal wage increases to below the rate of price increases so that real wages in the government sector have been reduced.

In Egypt, while government employment continued to increase through 1986 (the latest reliable data we found reported), the employment in parastatals seems to have held constant or declined somewhat. As reported above, real wages fell more for the public sector than for the private sector and within the public sector they fell faster for the government workers than for the public enterprise workers.

There is a clear tendency for governments when constraining budgets to reduce the non-salary

⁷⁵ This study centered on Sao Paulo with a large industrial base - results may not apply elsewhere as this labor situation tempered such key variables as the household survival strategies.

portion of the budget so as to avoid the more painful cuts in salaries. The World Bank⁷⁶ reports that for the social sector government expenditures there has been a continual increase in the proportion of total expenditures going to salaries. A similar phenomenon has been noted for Morocco - reductions in non-salary portions of government expenditures as budgets were sharply cut under adjustment policies.

The feature of governments making adjustments by reducing real wages rather than by cutting the level of public employment is widespread. Lindauer, et. al. have conducted an extensive survey of government wage policy in Africa where they find governments accounting for 20 to 80 percent of all wage employment in the formal sector. They note that real wages for African government workers have fallen from the mid-1970s through 1983 at a rate that often exceeded declines in per capita income. The governments, rather than increase unemployment, have instead relied on pay cuts. There is no evidence that this decline has been offset by rises in the official perquisites provided with government jobs⁷⁷. They also find a compression of wage differentials during this period. This has resulted in a shortage of skilled personnel at top jobs as well as reduced incentives for workers lower in the hierarchy to acquire skills. This has been somewhat shifted the relative public private positions: "although the data are poor, they suggest that salaries in parastatals are generally higher than those in the civil service for all grades and that private companies pay skilled workers more, and unskilled workers less, than does the government."⁷⁸

The most obvious effect of the declining real wages has been a decline in moral and efficiency in government performance. A common response has been the development of "moonlighting", to hold down a second (or third) job. We have been told by observers that this has become a serious problem in the public sectors of Egypt and Jordan, where wages have been frozen since 1983. We have no information how extensive or debilitating it has become in the other countries. It is clear that this development creates inefficiency both within the public sector and within the private sector where these individuals hold their second jobs. Developing procedures which would assist governments to make their adjustments by cutting employment rather than by cutting real wages would seem to be an important contribution which AID could make.

⁷⁶World Bank Egypt. Alleviating Poverty 1991

⁷⁷ Unofficial perquisites are limited mostly to high-level or specially placed civil servants, not the majority.

⁷⁸D. Lindauer, et al. 1988 p.13

C. Regulations and Institutions

Regulation and intervention can come from organized labor or the government. Before delving into the labor side, we will examine government regulation⁷⁹.

1. Minimum wages

Minimum wage laws exist in Egypt, Morocco and Tunisia. Experts regard the laws as generally unenforced outside the public sector, except, perhaps, for Tunisia.

Fallon and Riveros find two trends in LDC minimum wage policy: 1) aggressiveness has been declining in the past few decades and 2) few countries (Tunisia, however, as noted, is among them) have effective minimum wage policies. The result of the minimum wages are varied: in Argentina it distorts allocation in favor of nontradeables while in Chile there is a positive effect on aggregate demand and output. Calculating the explicit employment effects, work on Zimbabwe showed, "it was only in agriculture that a substantial employment decrease of about 18% could be attributed [to the minimum wage]. In the modern sector as a whole, the estimated wage-raising effect of 17% only translated into an employment reduction of around 4%." ⁸⁰

As already noted, whether the minimum wage can be counted as a barrier to labor reallocation in Tunisia in response to structural adjustment efforts is a topic which requires a more detailed investigation.

2. Job security regulations

The government may also intervene with job security regulations, taking four main forms: a) the period of notice required for firing, b) compensation packages, c) government permission on firings and d) requirements that hiring must be through government, or government licensed employment agencies.

Observers have argued that these types of job security regulations have hindered and biased private sector job growth in Egypt, Tunisia and Jordan.

In Egypt, one special job security regulation is the guarantee of public sector employment for secondary and post-secondary graduates. Though in recent years there has been relatively less hiring, graduates continue to queue up for government jobs because of the job security. The length of wait has been increasing but the influence of the guarantee is still apparent in the unemployment statistic

⁷⁹ For an overview of the theory on minimum wage and wage policy in developing countries under adjustment see Fallon and Riveros, 28-30.

⁸⁰P. Fallon and L. Riveros 1988 p.32

which show a large majority of those in open unemployment have secondary or post-secondary degrees. We have already noted that the job security provided along with declining real wages has given rise to an increase in moonlighting.

Apparently, public enterprises are governed by the same wage and employment policy regulations as government, though in practice the managers of these enterprises seem to have a bit more scope for relating wages to productivity. The World Bank proposes that the public enterprise sector be uncoupled from Public Law 84 which sets regular government wage and employment conditions.

Egypt has a strong law making it difficult for private sector employers to discharge workers, Public Law 137-1981. Proposed dismissals are reviewed by a tri-partate committee. While the Ministry of Labor reported that 33% to 74% of establishments were allowed to restructure employment between 1987 and 1989, it is clear that the hassle involved leads private employers to pursue strategies to have a smaller labor force, to use more capital intensive methods, to hire contract labor rather than regular employees and use more overtime.

Finally, in Egypt hiring is supposed to be done through Ministry of Labor employment offices (although I believe in conversation it was said that there had recently been some experimentation with making the process open to one or two selected private agencies). Firms can be fined for hiring outside this system. Though the Ministry of Labor has inspectors to work on enforcement, it is not clear how widely this system is avoided for hiring. The employment offices are also said to be inefficient in sharing information about openings.

Morocco has been characterized as having a highly regulated workplace with restrictions on firing, minimum wages, severance pay (but no unemployment insurance), and wage indexation. However there are severely overstretched inspectors, leading to lax and non-uniform enforcement.

These types of regulations can result in: such a degree of security for the worker that s/he will reduce effort; firm inflexibility to deal with macroeconomic shocks; a possible distortion in favor of capital insensitivity; and general loss of profitability. Fallon and Riveros conclude (p. 37) that "in general, there appears to exist a high correlation between highly export-oriented economies and the existence of light job security regulation."

It seems that the impact of job regulations on labor market operations is an important subject for investigation in the Near East countries, especially for Egypt and Tunisia. The World Bank has proposed a series of labor market reforms in this regard and

a schedule for implementing them¹¹.

3. Unions

It is widely recognized that unions can play an important role in affecting the operation of the labor market. In section VII we will discuss the role unions might play in the distribution of the effects of structural adjustment and the political economy of stabilization and adjustment policy making.

It is not altogether clear what role unions have played in the response to adjustment in the Near East countries under consideration. In Egypt, 25% of the workforce is unionized, primarily in the public sector. The Egyptian Trade Union Federation is said to be concerned about any adjustment plans which may reduce the public sector. It is not clear from the documents we have read whether they have played any significant role in slowing down or shaping the form of the adjustments which have been proposed. The reluctance of the government to end the graduate guarantee, reduce public employment or undertake other labor market reforms is evident, but how important the unions have been in influencing the government is not clear.

In Tunisia, while only 11% of the labor force is said to be unionized, some estimate that the public sector plus collective agreements covers 47.7% of employment. The Unions are said to be strongly opposed to the stabilization and adjustment reforms already undertaken and to moving any further in that direction. Their influence on government policy making is said to have been alternatively strong or weak in periods over the past decade.

In Jordan, 10% of the labor force is estimated to be in unions but union activity is said to be low-keyed.

We are unclear about the importance of unions in Morocco. Some documents portray them as weak and relatively unimportant. Others argue that despite a much more politically potent role in the past, the currently fragmented Moroccan labor movement represents five percent of the labor force (although the unions claim 11 percent) which allows them some sway over domestic political issues. Not only are they active on traditional labor issues, but they took strong stands on issues such as the Gulf War and the Western Sahara and promise to become involved directly in upcoming parliamentary elections. In 1990 two Moroccan unions unified in a call for better social conditions and pay and benefits for workers. This led to a partially observed nationwide general strike in December. However, in Fez this seems to have provided the catalyst for serious social protest, as

¹¹World Bank Egypt 1991 p.127

rioting erupted. This has echoes of 1981 when the government blamed the Democratic Confederation of Labor (CDT) for riots stemming from a general strike in Casablanca.

There is considerable variation in experience with the role of unions with respect to adjustment across the various regions outside the Near East. In Africa, highly elastic labor supply tends to substantially weaken the effectiveness of unions. Latin American unions vary. In Chile and Bolivia, they have been largely dismantled during the recent economic crisis. Meanwhile, unions in Brazil and Argentina (which have remained strong) have been accused of causing rigidities and reducing mobility. In Costa Rica unions have remained strong and there are 500 minimum wages (legislated and enforced) but this seems to have had no significant effect on adjustment.

Asian union activities are restricted and even prohibited in some sectors (Malaysia). In Korea, up to 1987, government intervention and control of unions ensured that wage growth did not outpace productivity growth while at the same time it allowed for workers to share in productivity gains. In the late 1980s, however, government reduced its intervention in collective bargaining arrangements and there was an explosion of labor unrest, indicating that rising real wages alone were not enough to assure worker quiescence.

Weakening unions and dismantling labor laws has not been shown necessarily to be the best approach. This was done in Chile and the resulting uncertainty about future labor regulations led to much hiring restraint on the part of employers (Fiveros). The dismantling of labor institutions does not seem to be associated with development. As Horton, et. al. note (p.42), "contrasting for example the relatively successful adjustment in Costa Rica and the problematic one in Bolivia, evidently dismantling labor institutions is neither necessary (Costa Rica) nor sufficient (Bolivia) for successful adjustment" Rather, what Horton, et. al. highlight is the underlying social conditions. They contrast Brazil, where there is wage indexation as a defensive measure of one of the groups engaged in social struggle over the share of total income, to Costa Rica where a consensus brought union support for painful adjustment.

A further issue in labor cooperation is government credibility in delivering future gains. Labor's expectation and perceptions of the economic reforms (and their likely success) become critical in sustaining support. In discussing union sponsored protest it must be remembered that unions can provide a critical social feedback service that cannot be provided by IMF, Bank or government and often highlight social problems with the program. As Freeman notes (p.21) "the greater the uncertainty about the success of reforms, and the more removed government officials are from the lives of the citizenry, the greater is the need for independent groups to provide feedback about the

real effects of programs and to pressure politicians to make changes."

Labor's relation with the political structures is important in determining support. Nelson argues that three tools available to government help shape this relationship: persuasion, partial compensation, and containment. A number of mechanisms embody one or more of these elements. For example, social pacts combine persuasion and compensation as they get workers to suffer short term hardship for long term payoff.

Governments may seek to curtail union activities through overt repression or more subtle action such as co-opting the leadership or encouraging divisions. For example, in Jordan the government has exerted strong control over the Jordan Federation of Trade Unions. Type of regime is not the most important variable in determining what tools are used - there are quite a few of examples of democracies that broke strikes and of one dominant party governments that allowed labor significant leeway (e.g. Neodestour in Tunisia). Rather, the dynamic relationship that exists between government and labor, and labor's representation (direct or indirect) in the upper levels of government help shape the ongoing relationship between labor, government, and the structural adjustment program.

New democracies or a political opening can lead to a particular set of challenges accompanying increased participation. An example of this was the 1990 (successful) strike at Jordan's Petra Bank after political liberalization and parliamentary elections. This opening may also be the source of dissension in the traditionally government controlled federation of unions. An entirely new regime may be blessed by a "honeymoon" as labor realizes that time is needed for reform to take hold and yield fruit. On the other hand, there is sometimes significant pressure for change when the new regime is seen as a break with the past. If the regime is seen as fragile, labor may use its popular base to extract gains while it can.

The new government may also see wage concessions as a way of consolidating power - cases of this abound (e.g. Turkey and Argentina). Nelson observes a variety of strategies used by new governments to bring wages back in line ranging from union breaking (Paz Entensorro in Bolivia) to social pacts (Spain) with no clear trend. She concludes (p. 53) that "at the core of durable arrangements to encourage moderate labor demands must be a modicum of confidence."

A central point is that adjustment may extend over a decade and hence "the crucial element in gaining worker's cooperation is the belief that their sacrifice will contribute to general gains and that those gains will be distributed fairly" (Nelson, 53). This requires labor's confidence in government economic management and continued political stability and labor's access to and influence on decision

making circles. Nelson makes the cogent observation that "the conditions needed to gain workers' cooperation are analogous to those which encourage business to invest: political stability, a voice in policy that affects their interests, and, arising from these, the confidence that current sacrifices will ultimately yield a fair share of future benefits." (Nelson, 37-8).

Tunisia in 1990 exhibited some elements of a policy aimed at establishing labor confidence, but also illustrated that this might not be so easy. First there was the government effort at bringing labor and management together in order to reform the Labor Code as part of the structural adjustment program. This was rejected by both groups (for different reasons) but at least indicates some willingness on the part of government to work with the two groups. Another indicator of confidence levels (albeit an unclear one) was the successful negotiation of 3 year collective bargaining agreements which cover many private and some state sector enterprises. While some critics (inside of and outside of the labor movement) doubt that the agreements will insure against inflation others express faith in the government promise to minimize price rises. There has, however, been some expression of labor discontent with government reform policy. As U.S. diplomats observed: "Labor remains fundamentally unpersuaded of the benefits of Tunisia's Structural Adjustment Program, at the center of Tunisian economic policy reform. The resolutions of the December 1990 National Council took strong issue with many of the features of the reform program, especially privatization and the liberalization of prices. The Council called on the government to consult closely with Labor in order to develop an alternative to the development model called for in the adjustment program."¹²

Freeman¹³ offers an analysis of the political economy of labor support for adjustment. Using a model time pattern of costs and benefits, he arrives at a number of conclusions. First, older workers are less likely to support reforms as they have fewer years to reap future benefits. Second, workers may prefer rising inequality when they perceive a chance of gaining from this in a reasonably near future. A third point is that erroneous rejection of reforms can be influenced by personal experience, for example random shocks (e.g. precipitous decline in export prices) can be misinterpreted as a faulty adjustment program and increase rejection. Overall, Freeman notes that support will follow a U-shaped curve, with expected gain being lowest as support bottoms out. Thus, for him the bottoming out of support is the critical period of adjustment and ideal time to make concessions to obtain continued agree to proceed with the reforms.

¹²U.S. Dept of Labor Tunisia 1991 p.5

¹³R. Freeman 1992

From this rather extended discussion it is apparent that there are a variety of ways in which unions can operate in the adjustment process either to facilitate adjustment or to impede it. A useful piece of research for AID would be to review the experience of other countries with unions in the adjustment process while simultaneously looking carefully at the characteristics and history of the unions in the specific Near East country being studied. How did the Costa Rican government obtain the agreement of the unions to facilitate the adjustment process? What does it take to convince unions that the transitional pains of adjustment will give way to greater longer term benefits? Can and should unions have an important role in the growth of the export sector? Is it possible to persuade unions that smaller public sector employment at higher real wages is a better and more viable situation than continued large public employment at declining real wages?

We will summarize findings from this section in the concluding Section IX.

VII. Outcomes of Adjustment Policy: Distribution, Protest and Compensatory and Social Safety Net Programs

Our ability to say much about the distributional effects of the stabilization and structural adjustment in the Near East Countries under consideration is hampered by the two factors pointed out several times above: in most of the countries stabilization and structural adjustment policy initiatives did not begin until the late 1980s so anything more than the short term impacts would be difficult to establish; data of the type appropriate to estimating distributional effects is rarely, if at all, collected in these (and most developing) countries and such data as have, in most cases, been collected have been published for no later than 1988.

For two of the countries - Egypt and Morocco - however, there have been rather extensive reports on adjustment and poverty⁴⁴.

For Egypt the report itself concludes it is too early to detect the effects of initial stabilization and adjustment policies. Assessing the impact in agriculture, for example, is difficult because the adjustment reforms while raising the prices for exportable agricultural goods and removing quotas for deliveries to the state system also removes subsidies on inputs so the impact on particular farmers will depend on the relative shifts on input and output prices which are relevant to them.

Only a few concrete pieces of evidence regarding distributional impacts can be pointed to. Some changes in the food ration subsidy system have already been made, so much so that the 1989/90 program is one half the 1984/85 program in nominal terms. Increases of prices for food and beverages have outstripped the rise in the overall consumer prices index. There can be little question but that the impact of these price rises falls more heavily on the lower income families.

On the employment side, the official waiting period for guaranteed employment for graduates was increased to 5 years, but practice had probably already made the effective waiting period longer than that.

The value of social security benefits has been eroded through inflation.

While the share of social expenditures in the government budget has increased, because of the decline in overall government expenditures as a percent of GNP, total social expenditures have declined as a percentage of GNP from 5.9% of GNP in 1984/5 to 4% of GNP in 1990.

⁴⁴All of the data on effects for Egypt which follow come from World Bank Egypt 1991 unless otherwise indicated. For Morocco all the references are to Morrison 1991 unless otherwise indicated.

It might appear at first glance that the distributional burden of the decline in social expenditures would fall more heavily on the poor, but this is not necessarily the case. It would depend on the distribution of the benefits of social expenditures between poor and non-poor prior to the decline. For example, while the university level accounts for 10% of the population they take up 50% of educational expenditures and a uniform cut in expenditure would fall more heavily on university students.

Be that as it may, there are indications that reductions in real spending have taken forms more likely to affect the poor, e.g., the reductions have been greater in the non-salary portion of budgets, reducing quality in service provision and the reduction in higher education expenditure has been less than for lower levels, where in addition "cost-recovery" fees have been increased⁴⁵.

For Morocco, there has been sufficient time for the effects of the first set of structural adjustment policies to have had effect, but much of information on which conclusions are based appears to be anecdotal. Looking at stabilization and adjustment efforts in Morocco as a whole the World Bank rates it as a relative success: "in Morocco, stabilization has been largely achieved, incentive reform is in its final phases and labor market distortions appear to be moderate".

However, in preparing for the second set of structural adjustment loans, the Bank has recognized that some of the reforms imposed social costs and in the next reform package some of the spending will be targeted on areas expected to temper the social costs of adjustment, specifically, primary education, health and non-irrigated agriculture. In the previous round, government budget cuts resulted in reductions in both health and education enrollment rates, as well as food subsidies.

As already noted, the major effects of stabilization and adjustment in Morocco appear to have been improvement in the agricultural sector, with some signs of growth of exportables in apparel, textiles, leather goods and electronics. The latter do not appear to have been sufficient to offset losses in urban employment in other sectors but it is hard to tell since the urban population has continued to grow faster than the total population. Declines in construction activity following the initial set of structural adjustment reforms have already been noted. The urban open unemployment rate, which had been 12.3% in 1982 and 14.3% in 1987, was 16.3% in 1989 and 15.8% in 1990. The urban unemployment rates for females remain five to six percentage points above those of males. It is difficult to conclude from these numbers what the effects of stabilization and adjustment policies have been on unemployment since overall the population was growing, the proportion in urban areas has

⁴⁵All of this is drawn from World Bank Egypt p.94-111

been increasing and the labor force participation rates of females has been increasing. All of these factors could have contributed to an increase in urban unemployment even without stabilization and adjustment policies.

The absolute number of poor has been estimated to have stayed the same throughout the 1980s and thereby to have decreased (to 30%) as a proportion of a growing population.

A. Inequality in the Effects of Adjustment

As Demery and Addison point out, adjustment policies may adversely effect the poor in two ways. In the short run they may reduce real income and consumption of the poor, and some support may be needed to help them over the transition. Second, over the long term, some poverty groups may not benefit from the processes set in motion by the adjustment effort. Thus social costs of adjustment may extend well into the future.

Demery and Addison make the point that the impact on the poor depends on whether the country is pursuing adjustment or stabilization: If structural adjustment policies engender growth in the tradeables sector opportunities may be provided for improvement in employment of some poor groups. Where stabilization alone is undertaken, there may be a greater need for transfers to the poor.

In order to analyze the distributional and poverty related impacts of the Structural Adjustment Programs(SAP) Stewart's definitions of primary and secondary incomes can be useful. Stewart defines primary claims on resources as those "which arise directly out of the productive process of work and accumulation," and secondary claims as those "which result from the transfer of primary claims."

Demery and Addison apply this to structural adjustment: economically active poor have a potential for raising their primary incomes through their direct involvement in the process of structural adjustment. Also, some of the nonworking poor may receive transfers from family members who work. But poor who are not economically active or do not receive family transfers, can only be aided through secondary claims - increasing their income and consumption transfers.

As Stewart notes: "The distribution of primary claims is the outcome of the institutional system in being - which determines the rules according to which claims are distributed - and technological/economic factors which determine how these rules work out in terms of actual income distribution. Secondary income distribution is dependent on institutional/social and political factors which are often heavily influenced by the primary distribution."

Four possible planks of a pro-poor strategy are suggested by Demery and Addison: increasing the access to productive assets (land and credit reform), raising the return on assets (removing market distortions), improving employment opportunities (improved occupational and geographic mobility, possible emergency employment) and ensuring access to education and health services. A fifth plank of this strategy turns to secondary income - supplementing resources with transfers, to benefit those who are not economically active or who are in the nontradeable sector.

Raising the return on assets in order to alleviate poverty brings in a host of structural adjustment issues. The market can be freed up so that the poor can capture gains from lower input and improved output prices. However, their primary asset is their labor. Here Demery and Addison argue for improved access to employment rather than a minimum wage, on the argument that a minimum wage will be above the market clearing wage and hence create surplus unemployment. As indicated above, it is not clear at this point that the legal minimum wage is effectively enforced in any of the Near East countries under consideration, except possibly Tunisia.

Removing distortions and the consequent redirection of incentives could have effects on two of the areas most often referred to in theory about LDC labor markets: the informal sector and rural-urban migration. As urban supports and regulation are removed, the nature of the informal sector will change. This effect bears further examination, especially since the majority of the poor work in either the rural or urban informal sector. There may be a novel way from the current mainstay of services to tradeables, especially under an export orientation. As already noted, information on the informal sector in the Near East is sorely lacking and certainly there is none which provides repeated observations of that sector so that changes under structural adjustment can be traced.

In terms of migration, there is likely to be short term costs associated with factor immobility but, in the long run, a new migratory equilibrium may emerge, given enhancements of agricultural capacity. As noted above, there is some indication for Morocco that the structural adjustment policies have led to a substantial growth in agricultural production of tradeable goods and that for males rural employment has improved. This growth does not appear to have been substantial enough, however, to reverse the trend in rural to urban migration.

Improved incentives in agriculture may not be enough to increase income and growth in the rural sector. The World Bank report on Egypt is pessimistic in this regard, noting that while reforms leading to more realistic pricing would lead to major reallocations of crops and a significant effect on the agricultural balance of trade, it is estimated that such shifts would have relatively little effect on

the demand for labor⁶⁶.

The case of Indonesia demonstrates that infrastructure improvement coupled with incentives can lead to very high levels of agricultural growth. Indeed, this may provide legitimation for some of the social costs of adjustment funds if they are aimed at such support activities. Extension services provide yet another variable in improved conditions for the poor rural farmer. In Zimbabwe, research and extension has been directed more at the disadvantaged small farmer than commercial farms, and has given this sector a boost.

In addition to structural changes, a stabilization and/or structural adjustment program will generate short-term unemployment in three ways:

1. Shift in incentives from nontradeables to tradeables. Basically, underutilized capacity aside, expansion of tradeable output can proceed only as fast as the expansion of capacity. Expenditure switching will depend on the perception of relative prices. Output switching will depend on expectations, ease of investment, and state of supporting infrastructure. This disjuncture of decline in non-tradeables and growth in tradeables can last several years.
2. Disequilibrium may necessitate demand "dampening." Unemployment would then occur if real wages were inflexible downward because of institutional rigidity or informational deficiencies in the labor market. In this instance, the constraints imposed by stabilization may outpace any employment generated by adjustment. This may be compounded if the programs are not well coordinated.

For example, Killick cites the example of Jamaica where a stabilization induced credit crunch bankrupted a number of firms that had been borrowing heavily in line with a Bank push to export orientation. This resulted in a deep recession (Killick, 1990). Demery and Addison also note that "some demand deflation is usually necessary to release resources from nontradeable activities in order to expand the production of tradeables in line with the incentives created by devaluation"

3. Finally, as noted above, cuts in government spending (in line with the nontradeable to tradeable shift, among other things) may result in the release of government employees.

Thus, in addition to the pre-adjustment legacy of unemployment, the stabilization and adjustment program will add additional workers to the ranks of the unemployed. While there has been some growth in open unemployment in the Near East countries under consideration it is difficult to link it directly to the effects of stabilization or structural adjustment since most of the unemployed continue to be new entrants into the labor force. The one exception to this may be in Morocco where

⁶⁶World Bank Egypt 1991 p.100

recently released data on the urban labor force show a sizeable percentage (21%) of the unemployed in urban areas giving as the cause of unemployment closing of the enterprise⁴⁷.

In addition to worsening employment, structural adjustment may cause worsening income distribution, at least in the short run. Indeed, work by Bourguignon, et. al., using a structural macro simulation model, indicated that during the period of adjustment (in the absence of any type of compensatory program) there would be a significant worsening of income distribution. This would reverse in the post-adjustment period when normal policies would resume, but would probably result in some sort of permanent damage to those below the poverty line.

It should be noted that the presence of rigidity may compound the worsening income distribution as Horton et. al. note. "at the simplest level, if stabilization necessitates a period of high unemployment because of downwardly rigid wages, then there will be an increase in inequality on this count, and perhaps a greater increase in poverty than if real wages had fallen sufficiently to maintain employment".

There are a number of mechanisms through which adjustment may worsen distribution. A potentially important mechanism is a rise in prices paid by consumers. This can come in two forms: first, under stabilization, cuts in government budgets will often require cuts in subsidies for basic goods (food, housing, utilities, transportation); second, under adjustment devaluation of the exchange rate will cause a rise in the price of imported goods which may be important for consumers, a rise in the price of imported intermediate inputs which may be passed on to consumers where such inputs are important in consumption goods production, and a rise in the price of tradeables which will affect consumers to the extent they are consumers of those tradeable goods or services.

These increases in basic consumption prices may, in turn, lead to stronger demands for increases in wages in the non-tradeable goods sector to off-set the rising costs of living, and indeed where there is wage indexation, such rises may be generated automatically. This can create wage cycles, with inflation used as a mechanism to reduce real wages and response by labor to attempt to reestablish real wages.

Government control of prices and subsidies for basic goods and services are important in several of the Near East countries. We have already discussed in section V under agriculture the importance of food imports and food subsidies in all of these countries. The case which stands out most clearly is Egypt. The World Bank estimates that, even after recent cuts in subsidies, 93% of the

⁴⁷Kingdom of Morocco 1992 Table 16

population receives some form of ration card. In addition, subsidies operate to lower prices on commodities and services not covered by the ration cards. There are substantial subsidies for electricity, oil products and transportation.

This extensive subsidy system is one of the factors which created an unsustainable structure in the government budget, leading to the need for stabilization and structural adjustment. Exit from these subsidy structures will be extremely difficult and the timing and phasing of the changes pose a great challenge, particularly when combined with the need to make corrections for the distortions in the labor market due to the government's role as employer and as regulator. A major problem with the structure of the subsidy programs is that they are so poorly targeted on the most needy. Thus as one tries to reduce subsidies the impact is broadly felt across the population and social protest will be difficult to contain. As already noted, the World Bank has proposed a sequence for some of the reforms. We will make our own suggestions in this regard in a concluding section.

The problem of social conflict generated by adjustment policies has already appeared in the Near East countries. For instance, there is this account, describing a union campaign for "general social reforms and specific improvement in pay and benefits for workers," in Morocco:

"The campaign culminated in a nationwide general strike called for December 14, 1990. The strike call was only partially observed throughout the country. In Fez, the economic stress on the underclass broke to the surface in serious rioting." (Dept of Labor, (Mor 1991) p. 8)

Another example was the attempt by the opposition (defeated 200 to 82) to censure the prime minister for his handling of economic and social issues. More dramatic examples have been documented in the multicountry studies. Horton et al say: "The country studies show that in Latin America, in particular, the conflict between maintaining or increasing labor's share of output and achieving external balance has been an important factor in the limited success of stabilization policies."

Worsening income distribution and (probably less importantly) increasing unemployment have often lead to the failure of structural adjustment efforts. A primary manifestation of this (in Latin America) is the populist "alternative" to adjustment. Basically, the populist approach is defined by Dornbusch and Edwards as one which "emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints and the reaction of

economic agents to aggressive non-market policies."⁸⁸ It utilizes "political mobilization, recurrent rhetoric and symbols designed to inspire the people"⁸⁹ in a broad based, catch-all policy approach. In their conception of the populist paradigm, Dornbusch and Edwards envision three phases. The initial condition is a receding stabilization effort that has cut growth while improving the budget and external balance situations. The policy makers then launch a program based on idle capacity and unequal income distribution emphasizing "reactivation with redistribution".

Phase one includes the financing, by reserve decumulation or debt moratoria, of growing output and high real wages and employment levels. In phase two, constraints emerge as foreign exchange dwindles and demand for domestic goods expands. Low levels of inventories and inventory building present difficulties. "Price realignments and devaluation, exchange control, or protection become necessary. Inflation increases significantly, but wages keep up. The budget deficit worsens tremendously as a result of pervasive subsidies on wage goods and foreign exchange."⁹⁰ Phase three witnesses the twilight of the heterodox endeavor. "Pervasive shortages, extreme acceleration of inflation, and an obvious foreign exchange gap lead to capital flight and demonetization of the economy. The budget deficit deteriorates violently because of a steep decline in tax collection and increasing subsidy costs. The government attempts to stabilize by cutting subsidies and by a real depreciation. Real wages fall massively and politics become unstable. It becomes clear that the government has lost."⁹¹ In phase four the government returns to orthodoxy. As the orthodox program takes effect the real wage declines to the point where it is less than before the populist policies were started. Dornbusch and Edwards emphasize that this decline will be hard to overcome because of the depressed state of investment and capital flight.

Sachs adds an important note to Dornbusch and Edwards description with his observation that populist policies fall under no ideological heading, they have been used by the right and the left. Given distributive conflict and some political opening in the Near East countries, there is the potential for such populism, especially after adjustment is sustained for a number of years.

⁸⁸ Rudiger Dornbusch and Sebastian Edwards, Macroeconomic Populism in Latin America, Working Paper No. 2986, Cambridge: National Bureau of Economic Research, Inc., May 1989, 1.

⁸⁹ Ibid, citing Drake, 3.

⁹⁰ Ibid., 7.

⁹¹ Ibid.

Sachs also offers us an explanation of why populist policy is enacted. The chief culprit, he argues, is social conflict, manifested primarily in unequal income distribution which he finds evidence of in Latin America. Sachs argues that high income inequality: "raises the pressures for overly expansionary redistributive budgetary policies; enhances the power of economic elites to resist taxation needed to balance the budget; contributes to direct, destabilizing labor militancy; and decreases the political support for export-promotion measures, which tend to threaten urban real wages in the short run"⁹².

Populist politicians traditionally rely on a catch-all appeal to urban workers, combined with charismatic leadership. Populism is very much in evidence in recent Latin American history. As Sachs notes "Economic populism helps to explain the fact that in 1988, no less than four countries (Argentina, Brazil, Nicaragua, and Peru) in Latin America had inflation rates of several hundred percent or more, while in the rest of the world there was not a single case of triple digit inflation."⁹³ An example of Peru, and the appeal of populism at its height, is provided by a news account from Peru in 1987:

"Peruvian President Alan García Pérez surprised everyone this year, including his own advisers, by making more than good on campaign promises to get the economy moving again in a "socially oriented" direction. Despite pessimistic projections by foreign economic observers, García's series of sweepingly state-interventionist reforms helped bring about an 8.5% rate of growth last year - a high Peru has not seen since the post-Korean War boom of the 1950s. And as a part of García's strategy to quell the increasing violence of the 1980s, the bulk of the measures geared toward Peru's massively poor population. The combination of direct wage increases and indirect subsidies boosted traditionally depressed farm incomes by 30%. Urban workers, likewise, found themselves on the average 20% better off in real terms than they were in 1985."⁹⁴

Of course a year later the picture was much more grim with output in 1988 falling 25% and inflation at close to 3000 percent, and 68 percent of the population in a Lima survey around the

⁹² Berg and Sachs cited in Jeffrey D. Sachs, Social Conflict and Populist Policies in Latin America, Working Paper Number 2897, Cambridge: National Bureau of Economic Research, Inc., March 1989, 8.

⁹³ Sachs, Social Conflict and Populist Policies, 5.

⁹⁴ Carol Wise, "Peru: Economic Wonders, Political Ills", NACLA Report on the Americas, 21 (May/June 1987), 6.

beginning of 1989 favoring an IMF program.⁶⁵ In the sequence we have seen the emergence of Fujimora, a figure who has proved very difficult to evaluate. The price of populism is not only adjustment time foregone, but a deeper hole to dig the economy out of.

B. Attempts to Deal with Unequal Effects

A critical tool for dealing with the issue of worsening income distribution and poverty during adjustment are social safety nets⁶⁶. In designing these social safety net programs, one has to take account of the role of the market, as Horton, et. al (p. 6) indicate: "Whatever the role of the labor market in achieving the macroeconomic objectives of stabilization and structural adjustment, how the labor market responds to macroeconomic instruments will certainly determine the distribution of income in the economy."

Stabilization and adjustment programs must address the likelihood of serious social conflict and political economy issues: as Nelson⁶⁷ argues in her discussion of labor: "labor cooperation would also be encouraged if governments -- and those advising them -- placed more emphasis on increased equity to balance insistence that labor make sacrifices in the public interest."

In order to maintain critical support for the adjustment process, especially through the bottoming-out of support, the safety net or compensation program can be seen as a component of the program.

Freeman elaborates on the issue of balance in social programs associated with adjustment. He offers some order of preferences for alleviating social costs during adjustment: "job training and active labor market programs that increase employability are undoubtedly preferable to straight 'bribes' or subsidies that keep alive unprofitable enterprises, but the latter may still be worthwhile if they buy additional time for painful reforms".⁶⁸ The problem, however, may be that closing these

⁶⁵ Rudiger Dornbusch, "It's Coup Time in Peru," The International Economy, January/February 1989, 46.

⁶⁶We must caution that our discussion of social safety net programs is necessarily relatively superficial. We found relatively little literature on such programs in developing countries, and especially on the Near East countries and, given the already extensive length of this report, we have not attempted a deep discussion of issues.

⁶⁷ J.Nelson 1990 p.54

⁶⁸R. Freeman 1992 p.18

unprofitable industries may be key to removing distortions and returning some semblance of a fiscal balance so the costs of maintaining some distortions must be weighed against the tolerance for reform gained.

Freeman also suggests: "going beyond government programs, an alternative way to attract support is to give losers institutional power to defend their interests in the post-reform world – for instance, collective bargaining rights for workers whose market pay falls but who may be able to negotiate a 'share' of gains through union activity."⁹⁹

B. Safety Nets

The first concerted work that highlighted the need to include social programs to redress the social costs of adjustment was "Adjustment with a Human Face," initially developed by UNICEF as part of a 1983 study of the effect of the recession on children. This work postulates concern for the poor and for children in the context of adjustment. It is not an alternative to orthodoxy, but rather a reform of it.

This programmatic proposal has six main elements: 1) a more expansionist macro policy, 2) policies aimed at the most vulnerable, 3) sectoral policies aimed at restructuring the social sector to provide more opportunities for women and the poor, 4) a shift from high cost to low cost basic services in the social sector, 5) compensatory programs, and 6) social indicator monitoring.

This view has been recognized to some extent (owing in part to an effective UNICEF PR campaign), with the establishment of "emergency" funds in some countries (Bolivia, and Ghana to name two) undergoing structural adjustment. These funds to alleviate the costs of adjustment tend to operate almost entirely on soft aid money.

For this section, we will use the term social safety nets as defined by Paull: "the term social safety net may apply to income support measures, employment services, proactive employment and income generation activities and the funding and provision of adequate health services as applied to the alleviation of poverty". To this we must add a dimension Paull leaves out: that the benefits of these programs are not solely centered on the recipients; they may result in infrastructure improvements which will benefit adjustment. There are also straight out compensation programs e.g. severance pay, which may be used to facilitate adjustment, first, by avoiding political backlash, but also if intelligently designed, so as to facilitate transition to new forms of economic activity. These

⁹⁹Ibid p.18

too, may be a necessary part of adjustment but they have different effects.

Three main types of pro-poor programs have evolved to complement adjustment: employment creation¹⁰⁰, guaranteeing and improving access to social services¹⁰¹, and improved targeting of subsidies.

1. Egypt's Social Safety Net: an Example

Again we turn to Egypt to illustrate some of the issues and problems. Prior to the undertaking of stabilization and adjustment reforms Egypt had a rather fully developed array of social infrastructure programs. We have already mentioned the extensive set of subsidies in food, utilities and transportation.

In addition, there is an extensive social security system and systems of direct transfers operating which mostly cover the elderly, disabled and female-headed females. Further, it is estimated that non-governmental organizations provide more income support to the poor than does the government.

In spite of the extent of the system, the World Bank estimates that the combined amount given by the government and the non-governmental organizations would have to increase four fold to adequately cover the estimated population of vulnerable groups. The General Scheme of the Social Security system covers all government workers and most of the formal private sector and there are three supplementary elements for the self-employed, workers abroad, temporary workers. At present the financing of the pay-as-you go system is such that it is accumulating surpluses, but actuarial analysis suggests that there is a small fundamental deficit.

There is an unemployment benefits part of the system but it is said to play a small role because most of the unemployed are new entrants. (Of course this could change if labor market reforms led to more layoffs from either the public or private sectors).

Health insurance is estimated to cover 85% of the government employees but only 30% of the formal private sector workers. However, overall it is estimated that the health insurance system covers only 8% of the population.

Overall, it is estimated that almost all of the Egyptian labor force is enrolled in one of the

¹⁰⁰ For some of the earlier theory on this see Frances Stewart, "Supporting Productive Employment Among Vulnerable Groups," Chapter 10 in Adjustment with a Human Face vol II.

¹⁰¹ Indeed, Kingsbury (p. 12) notes that "it is well documented that public resources allocation is often biased against the poor prior to structural adjustment."

four social insurance schemes. While the coverage is broad, it is judged to be shallow, with benefits being eroded by inflation and with health insurance coverage for large segments of the vulnerable lacking.

In education, there is estimated to be a 90% enrollment ratio for primary years but high repeat and dropout rates, with dropouts losing literacy and numeracy skills. We have already mentioned the imbalance in the allocation of educational expenditures, with those likely to end up only having had primary schooling representing 40% of the population but 20% of expenditures at one end and higher education representing 10% of the population but 50% of expenditures at the other end.

In the area of job creation programs, the only program that has been mentioned in the documents we have reviewed has been the Productive Families program, a mixed training/loan/contract production and marketing system involving about 200,000 persons, but judged to be an effective program. The government is said to be intending to increase it five-fold in the coming years¹⁰².

The general problem then in terms of coverage and expenditures for social purposes in Egypt is a broad shallow system, having very weak target efficiency as regards the poor. In order to achieve stabilization of the government budget, expenditures have been cut and will have to be further cut. Unless the targeting of the support and human capital programs is improved, however, the cuts will further exacerbate the problems of the poor who are likely to be hardest hit by rises in prices and reductions in employment and real wages.

2. Job Creation Programs

We turn now to a quick review of some of the issues concerning job creation programs. While these do not appear to have been extensively undertaken in the Near East countries under consideration, it may be that they will be, or should be, more seriously considered as transitional compensatory programs in the future. It is therefore useful to try to highlight some of the issues and some of the experiences in other countries¹⁰³.

Objectives of job creation programs could be : a) to increase mobility across sectors; b) to

¹⁰²All of this description is drawn from World Bank Egypt 1991

¹⁰³For a discussion of job creation and training programs in the U.S. and Europe see R. Hollister and R. Haveman "Job Creation" in Bjorklund, A. et al Employment Creation and Unemployment Insurance Oxford Univ. Press 1991

increase skills; c) to provide transfers (but with a multiplier effect as these transfers are spent on domestic goods). Program design usually requires some trade-offs among these goals, e.g., programs that increase skills will tend to be more expensive per participant and therefore will provide less scope in coverage for transfers.

In poorer nations, the reconstruction/construction of infrastructure may be critical in a move towards tradeables. Hence, what may be conceived as a transfer program can have important adjustment support effects. However, one must note that by improving the wages in nontradeables (such as infrastructure project), one is operating in direct contradiction of the adjustment program's goal of shifting incentives in favor of tradeables. In this case, the costs to the goal of the adjustment program have to be weighed against the gains in improved infrastructure and income.

As a rule, the compensation programs tend to operate primarily on donor financing (the LDC government may contribute a small amount), with the World Bank often playing a leading role in financing and design assistance. Often they are mounted outside the usual bureaucratic structure. Examples of this include the Bolivian ESF, which was created with critical support from the higher levels of government to operate outside of the normal bureaucracy, and Ghana's PAMSCAD, conceived as a program outside (but still related to) the adjustment program.

These programs are usually temporary. The fact that these programs are "addends" to adjustment can be responsible for a number of critical problems: weak institutional capacity, poor government/donor coordination and simply poor planning. Indeed, as Kingsbury points out, the fact that these exist outside of the standard budget removes them from whatever scrutiny the budget receives. Furthermore, to the public the program's existence outside the adjustment policy regime may seem to some to indicate that the adjustment program cannot fix the economy - if it could, why would a compensation/safety net component be needed? Therefore the inclusion of the project under the heading and planning of the adjustment program may yield better cooperation from key political economy actors such as labor, and a better overall public image.

These programs often provide a vehicle for corruption or increased bureaucracy and bureaucratic inertia, hence Ghana's PAMSCAD is nicknamed PADSCAM by some. This spans a range, however. For example, in Bolivia's ESF only 3% of the budget went to operating expenses, while in Ghana's PAMSCAD, 48% went to "logistical support."

These programs may have external spinoff benefits not anticipated. For example, an unanticipated result of the Bolivian ESF was an improved ability of municipal governments and grassroots organizations to design, find funding for, and implement projects due to the demand-driven

nature of the program (the ESF was demand-driven in that these groups had to solicit funding for projects, which were then carried out by private contractor).

On the other hand, the Bolivian demand-driven scheme may have been regressive in impact since most of those involved did not come from the lowest income groups.

There also may be contradictions and negative trade-offs within the program. For example, the ESF, in order to be quick-disbursing used private contractors with the result that almost no women were employed. Furthermore, the emergency employment programs (EEPs) do not seem to be doing much for labor mobility, as Demery and Addison note, "The main limitation of the EEPs is that most do not encourage the movement of workers into activities that are being promoted by structural adjustment policies. If anything these interventions may be effectively discouraging the mobility of the unemployed." This sentiment was echoed by Kingsbury on a more general level: "the long-run potential of emergency employment programs to build job skills is probably overestimated." Workers tend to receive no human capital investment and work on government determined (often luxury) projects.

Ultimately it is the specific labor market conditions, the availability (esp. speed) of funding, and the strength and orientation of the bureaucracy that determine program success. Bolivia, for example, was successful as it tapped unemployed or underemployed construction workers and the project was executed rapidly.

In Appendix D we provide a summary of findings from a sample of employment creation programs in several countries outside the Near East region.

VIII. Data Priorities for Labor Markets

We very briefly review here what we believe should be the priorities for development of data on labor markets in the Near East countries under consideration. A lengthy discussion of the various types of data relevant to labor markets which have been or could be developed is provided in Appendix D.

The development of case studies of labor markets and labor market institutions in each of the countries under consideration is a high priority¹⁰⁴. However, we would do not consider case studies as data collection per se and believe that their quality is highly dependent on good underlying consistent, up-to-date data on labor markets. It is this type of primary data collection and processing that we discuss here.

1. First priority should go to Labor Force surveys

Regular and systematic household surveys which deal with labor status questions are the backbone of analysis of labor markets. First priority should go to the assuring existing surveys are made consistent across years and processed as rapidly as possible. Problems of slow processing and inconsistencies were noted by experts for both Egypt and Tunisia. In Morocco, it appears that there is a time-series of data studies on the urban population's labor force status. This series should be carefully explored. Making it possible for researchers to get access to the micro-data files, both in the case of this Moroccan series and elsewhere, would raise sharply the amount, quality and speed of analysis that could be done.

2. Second priority. Support the development and processing of Living Standards Measurement types of data collection. We understand that such a data collection has been completed for Morocco but no funds have been allocated to process or analyze it. Jordan is reported to have agreed to the undertaking of such a study. The World Bank has been recommending and LSMS data collection for Egypt. Adding Tunisia and Yemen to the list where such studies are undertaken would provide a powerful basis for analysis of labor markets and related subjects in this set of Near East countries and provide an opportunity for fruitful cross-country analysis. LSMS studies allow studies not only of labor force status but also of utilization for social services and expenditures patterns. Such information would be very useful for discerning the distributional impacts of stabilization and structural adjustment.

3. Third priority. Tracer studies of the graduates of educational institutions and training

¹⁰⁴R. Freeman 1992 makes a cogent argument for the importance of such studies.

programs should be promoted as the best way to obtain information on the connections, or lack of connections, between these human capital creating activities and the realization of their benefits in labor markets. Such studies can be done relatively quickly and inexpensively and can provide a rich picture of current labor market status, employment history and educational and training background. Comments on the inappropriateness of formal educational curricular to current labor market developments were noted in work on both Egypt and Tunisia. Tracer studies could provide insights on the extent of such misallocation of education and training resources.

4. Fourth priority. Efforts to strengthen the collection and systematization of wage (or better compensation in general) data are important for almost all developing countries. Existing wage series should be reviewed and efforts made to rationalize them. While statements were made in many documents about the decline in real wages, the basis of these statements is often questionable. As was seen in the discussion in section VI, question about whether wages are moving in the directions necessary for the encouragement of the reallocation of labor toward tradeables are of major concern in the study of the adjustment process. It would be useful to have more reliable data.

5. Fifth priority. Develop data on the informal sector in the Near East countries. We could find only one rather dated study of the informal sector (in Tunisia) for any of the countries under consideration. Information on this sector and how it is operating under adjustment is important. In developing such studies, a careful review of experience in other countries in developing the sampling frame and drawing the sample is critical before proceeding to funding such studies. Samples have been drawn in a wide variety of fashions and the usefulness of the data in drawing a generalizable picture for the wider economy depends on how the sample is drawn. It would be extremely useful to have some samples of informal sector data collected on a consistent basis at several points of time so the dynamics of the informal sector could be better understood.

6. Sixth priority. A study to pull together existing data on employment and earnings in the export sector is central to understanding how the adjustment process evolves. It may be possible to draw such data from existing sources, such as establishment surveys, but it may be necessary to develop special data collections for this purpose. AID has sponsored an interesting study of the export sectors in Ecuador, which gives insights on the gender patterns of employment in this sector.

7. Seventh priority. Data should be drawn together on rural non-agricultural employment.

This is a largely unresearched area to our knowledge¹⁰⁵. It was noted that in both Egypt and Morocco substantial proportions of the rural labor force are estimated to be employed in non-agricultural work and rural household draw substantial portions of their income from non-agricultural sources. As it appears that in many countries, and certainly in Morocco, the leading sector in growth of exports following the beginning of adjustment policies is agricultural, it would be useful to know to what degree those changes spill over into non-agricultural employment in the rural sector. In addition, non-agricultural employment opportunities can slow rural to urban migration, which we saw continues in all the countries under study.

8.Eight priority. Investigate the more extensive use of records data. Robert Rucker used records data on investment applications in an imaginative way to gain insights on export sector developments in Tunisia. The extensive Social Security system in Egypt may provide a rich source for following individuals employment and earnings over time in the public sector and the private formal sector.

¹⁰⁵In a chapter in H. Handoussa 1991, A. Richards provides some analysis of rural non-agricultural employment using Census data, in the context of trying to explain the rise in agricultural real wages in Egypt. He estimates that non-farm rural employment grew at 6.5% per annum during the 1976 to 1986 period. pp. 77-80

IX. Summary and Recommendations

A. Summary

Our conclusions regarding labor markets in the Near East countries of Egypt, Jordan, Morocco, Tunisia and Yemen are presented using the framework of topics outlined in section V above.

- Labor Supply

Population growth puts extraordinary pressures on labor markets to absorb new entrants and makes the attainments of stabilization and structural adjustment goals more difficult as pressures to alleviate growing unemployment are heightened by the population pressures. Jordan and Yemen have extremely high population growth rates and face a long horizon of pressure on labor markets as a result. Egypt and Morocco have been moderating their population growth rates but would be able to accomplish a good deal more if they were able to diminish them further. Tunisia has the best prospects as its population growth rate is well down.

Labor force participation rates translate the underlying population into labor force. The key area of concern in this regard, for these countries, is the low labor force participation rate of women. Female participation rates have been rising slowly for those countries for which data could be found, namely, Egypt, Morocco and Tunisia. There appear to be very few studies of the determinants of female labor force in these countries. Whether female participation will increase significantly is an important question for future policy planning. Increases present more new entrants to be effectively absorbed but opportunities for female work in tradeable sectors could be important for structural adjustment, both in agriculture and in manufacturing. There is some hint of increase in female employment in exportables in Morocco.

Rural-urban migration has continued in all of the countries, though slowing somewhat in recent years in Egypt and Tunisia. This movement put continuing pressure on urban labor markets and on government budgets to provide amenities and social services. While agricultural earnings seem to have improved in Morocco and Tunisia, perhaps in response to structural adjustment shifts in incentives, it has not proved strong enough to stop or reverse the rural to urban flow. The question of rural to rural migration has not been studied in these countries and probably deserve some attention.

International Migration and the remittance flows back to the sending country have been very important for all these countries. The remittances have been a significant part of the balance of

payments. Labor outflows from Egypt appear to have generated occasional labor shortages in agriculture and construction in Egypt. The Gulf War caused some abrupt shifts which have been significant for Egypt, Jordan and Yemen who have had to reabsorb large numbers of returning workers. The variances in remittance flows has introduced an added degree of uncertainty into planning for stabilization and structural adjustment.

Human capital supplies in the labor force, as indicated by the degree of formal education, have risen in all the countries, with Egypt, Jordan and Tunisia having the strongest growth in primary and Jordan and Egypt in secondary. Morocco has been increasing enrollment rates but still remains low relative to the other countries. Enrollment rates for females are below those for males in all the countries. Several experts have suggested that, in spite of high enrollment rates, the curricular content of the formal education may not be such as to generate appropriate labor market skills to facilitate stabilization and adjustment. Reports on the allocation of expenditures in Egypt suggest a disproportionate fraction going to higher education. Some careful examination of the extent to which formal education and training are shaped appropriately to foster the most useful skills for growth would seem warranted.

-Labor Demand

Sectoral structure has been changing in all the countries, with a decline in the share of employment in agriculture and a rise in the share of services a common feature. Even though the share of employment in agriculture is declining, the absolute numbers continue to rise in most countries. None of the countries show a sharp rise in manufacturing employment, though in Morocco there are some hints of increases recently in urban employment in manufacturing. The time since reforms is too short and the data too spotty to detect definitively the influences of stabilization and adjustment policies. It appears that such effects as there have been have improved incentives and earnings in agriculture, particularly in Morocco. Because of the complex of subsidies, quotas and credit structures, experts find it hard to predict what the effects will be in agriculture for Egypt.

Information on the informal sector seems to be totally lacking, so impacts of reforms on this sector cannot be assessed. It must be presumed, however, that informal sector employment has absorbed the fluctuations in employment in the formal sector and the rural inflow to urban areas. More needs to be known about the dynamics of the informal sector in these countries.

The major sectoral feature in all these countries is the very high proportion of employment in the public sector, both in public enterprises and in government administration and services. Governments have slowed down their rate of increase of employment but have not managed to reduce

total public employment. In Egypt and Tunisia, studies have found overstaffing and inefficiency in public enterprises to be high.

Supply and prices of other factors of production, such as capital, land, and intermediate inputs have been concerns in the adjustment reforms in all of the countries. Exchange rate reforms, reductions in import licensing, increases in real interest rates, reductions in subsidies for fuel, fertilizers and other inputs have all played a role to some degree in the adjustment reforms of each country. In several of the countries, particularly Egypt and Tunisia, experts have argued that in the past price distortions have encouraged a bias toward more capital intensive methods both in agriculture and manufacturing and that even the reduction in distortions achieved so far do not go far enough to total remove such biases. It is too soon to detect clear effects of these reforms on employment and, in any case, the pattern of cross-effects on inputs and outputs is so complex that detecting the distribution of any employment effects, both across sectors and within sectors, will require quite detailed information.

-Market Interaction

Compensation levels and trends are determined by the interaction of supply and demand in competitive markets, although recent developments in labor economics theory suggest that range of movements may be more constrained than the simplest theories had suggested. In all the countries under consideration, real wages are said to have declined in the 1980s, though the quality of the data on which such statements are based is questionable. In all cases, experts conclude that real wages in the public sector have declined relative to those in the formal private sector, primarily through nominal public wages rising less than the rise in price levels. There was no clear evidence of downward rigidity of wages (a common finding in recent multi-country studies), but at the same time it could not be determined whether the shift in relative wages as between tradeable and non-tradeables had moved in the direction called for under adjustment in order to facilitate movements of labor in the appropriate directions.

The decline in the real wage in the public sector was said by observers to have given rise to extensive second-job-holding (moonlighting) in the private sector and concomitant decline in public sector efficiency. It is generally felt that economically, it would be far better if governments could be encouraged to reduce their employment budget expenditures by cutting the number employed rather than by reducing real wages and tolerating moonlighting, but it is recognized that this may be more difficult politically.

Disequilibrium in labor markets under stabilization and adjustment can be indicated by

increased unemployment, although some contemporary theories suggest that sustained involuntary unemployment can occur in reasonably competitive labor markets even without the pressures of stabilization and adjustment reforms. There was no clear evidence of sharp rises of open unemployment following stabilization and adjustment reforms, though there was a slight upward trend in most countries at the end of the 1980s. However, in most of the countries, the unemployment data suggest that "luxury unemployment" was predominant in that there was a high proportion of more educated persons (secondary and university) among the unemployed. In Morocco, however, recent data give some suggestion that urban unemployment might be related to stabilization, as a substantial proportion of the unemployed are not highly educated and give firm closing as reason for unemployment.

Movements of labor which should be part of a successful structural adjustment process can be hindered by labor market segmentation. The major form of segmentation in these countries is between the public sector and the private sector. There would also appear to be segmentation on the basis of gender. The lower level of educational enrollment of females, their much lower labor force participation rates and their somewhat different rural-urban distribution all suggest segmentation on the basis of gender is likely to be operating in these labor markets. We did not come across detailed studies of the distribution of employment or wages of females across industries. There was some mention of increased employment of females in the increasing export industries in Morocco.

The institutional structure of the labor market is clearly important in determining differences across countries in the way labor markets operate. Unions and the collective bargaining process can be important not only economically but politically. The extent of union membership varies across the countries mostly around 10% but with Egypt has an estimated 25% of combined public and private formal sector employment. But the influence of unions may be proportionately greater than their membership when they are an organized force in otherwise weakly organized urban settings. The unions in Egypt, Tunisia and Morocco were said to have been generally opposed to the stabilization and adjustment reforms, particularly any that suggested reductions in public sector employment. It is not clear how influential they have been.

The issue of how government regulations affect the operation of labor markets is a critical one for most of these countries. While minimum wages are always foremost in the mind of those concerned about government labor regulations, there was no evidence that these were particularly important in the countries under consideration and this is a finding which, with a few exceptions, seems to have held true broadly in recent multi-country studies. Tunisia appears to have the strongest

enforcement, but whether minimum wages have really been a constraint on labor market adjustments is not clear.

More important, in Egypt, Tunisia and Jordan are government job security and access regulations. Regulations which make laying off of workers a complicated and negotiated process are said by many observers to have led private formal sector employers to be biased toward less labor intensive technology, to hire new workers more slowly, to resort to overtime and contract work. Regulations requiring hiring be done through public sector employment agencies are probably widely circumvented but they are judged by many to be an irritant and to contribute little to the informational efficiency in the labor markets. In order to determine how great a priority changes in labor regulations should be in any subsequent policy reform a deeper examination of the effects of these regulations on labor markets in these countries would seem called for

-Distributional Effects of Adjustment

As noted above, two factors limit our ability to say much about the distributional effects of the stabilization and adjustment reforms undertaken in these countries. First, reforms were in general undertaken in the later part of the 1980s and only short term effects would have emerged. Second, appropriate data for estimating the impacts is rarely collected and such data as have been collected have only been processed and published for years up to 1988. For Egypt and Morocco, however, there are two extensive reports that try systematically to review what can be learned about the distributional effects of the reforms, particularly as they affect the lowest income groups. These reports focus not so much on what has been learned about actual effects of reforms but on the conditions in labor markets and in the system of social services and supports which would be likely to mediate how reforms might affect various groups.

Many features of labor markets which would condition the distribution of benefits and burdens of stabilization and adjustment have already been reviewed above, e.g. segmentation between the public and private sectors, and by gender, differential impacts on agriculture and urban employment. Here, however, more attention is paid to the effects of changes in input and output prices in other markets, in particular the importance of various food subsidy programs. In several of the countries rises in food prices connected to the reforms have generated urban riots. The Egyptian subsidy system, mostly for food but also for utilities and transportation, is the most extensive (some 93% of the population are estimated to receive some form of food subsidy) and expensive.

Some steps have been taken to reduce the scope and level of subsidies, but they remain extensive. The major problem in sensible reform of subsidies - and other social support systems, is

that they are poorly targeted on the most needy groups; there is a lot of "leakage" of social transfers to the better off in the society. This not only means that the level of support to the worst off for a given level of expenditure is diluted but it also means that cutting subsidy expenditures is made more difficult politically because the benefits are so broadly distributed. The interaction of the reforms in labor markets and the need for reforms in subsidy programs makes the overall reform process more difficult and the phasing of reforms a critical issue; handling short run increases in unemployment engendered by demand compression and at the same time reducing widespread subsidies is likely to generate tremendous social protest and pressure to reverse reforms.

Egypt has an extensive system of social programs - social security, health, education - which will play a role in determining the distribution of the impacts of adjustments. Steps to improve the efficiency of these systems need attention as part of the adjustment process. There is evidence that international agencies and the government are increasingly aware of this need. Morocco is also attempting to focus some of its second round of reforms in those sectors which will alleviate the adverse distributional effects of adjustment policies.

B Recommendations

We have set out priorities for data gathering efforts in section VIII above and will not repeat them here, except as they are implicit in the other recommendations. We will not take space here to try to tie recommendations tightly to individual countries.

We list the recommendations roughly in order of priorities as we see them

I. Sequence of reforms Careful consideration of the sequence of reforms under stabilization and adjustment has been advocated by Edwards, as described above, who suggests there is some reason to consider reforms in labor markets prior to reforms in the trade policy regime (exchange rates and tariffs). In addition, Riveros has shown, in a multi-country econometric study, that labor costs are an important determinant of manufactured export growth and "labor market distortions" work against manufactured export growth. Suggestions about the sequence of reforms related to the labor market need to be developed for each of the countries in light of the particular characteristics of the labor markets and related government taxes, expenditures and regulations.

Case studies of each country could lead to development of some proposed sequences. Let us take the case of Egypt, as an example.

Egypt's problems appear to be centered on the high government proportion of employment, with deep involvement of parastatals in many sectors and a nominal guarantee of employment for

secondary and above graduates coupled with an extensive and expensive complex of subsidies for food, utilities and transport. Attempting reform in all these areas simultaneously, while also making other stabilization and adjustment changes which are likely to create transitional unemployment in the private formal sector and downward pressure on earnings in the informal sector, would clearly cause great economic and social turmoil. Here is one potential sequence of reforms focused on the labor market which might reduce the amount of turmoil and resistance to change:

a. Introduce "share contracts" as the form of compensation in the parastatals. "Share contracts" mean that compensation of all workers is tied, at least in part, to the overall performance of the enterprise. They can take the form of bonuses, profit sharing, or revenue sharing. Typically, there would be a base pay unrelated to performance and then a substantial portion on top which varies with the level of earnings (measured in one way or the other) of the enterprise. "Share contracts" encourage all employees to concern themselves with the efficiency of the production processes. This would help to bring pressure on overstuffed and inefficient public enterprises. An important requisite of effective operation of "share contracts" is adequate access to well-kept financial records for representatives of the workers in order to assure their trust in the determination of their fair share of "good performance" by the enterprise or "bad performance of the enterprise. For the same reason, it would appear important that "share contracts" be the form of compensation for all workers, from the lowest unskilled to the highest level of management. Another advantage of "share contracts" is that in an open economy which faces inevitable fluctuations in export and import prices and volumes, the burdens and benefits of those fluctuations are more fairly spread across the working population and adjustment could occur much more quickly. Governments with a large parastatal sector can lead the way toward -or effectively experiment with - "share contracting" without having to coerce the private sector to use this form of compensation; they can lead by example.

b. Remove the parastatals from the labor code which makes the process of hiring and laying-off workers a complicated negotiated process involving several parities. With "share contracts" in place, the usual bias of firms to adjust to poor earnings by laying off workers rather than cutting wages is reduced; the "share contract" wage moves down with poor earnings so labor costs adjust quickly without resort to layoffs. Relieving parastatals from labor code restrictions would have an added degree of flexibility to adjust to the increased pressures for efficient operation which the "share contracts" would introduce. At the same time, government should be phasing out subsidies to "losing parastatals". Again this might be part of "leading by example" for the private sector.

c. Using some form of Social Fund, develop a system of compensation for persons laid off

from public service jobs which would provide substantial one-time "capitalized" funds (perhaps similar to Bolivia) and combine this with a system of "incubator services" (technical assistance in production, management and financial techniques and, often important, initial working space) for the start up of new businesses.

d. Freeze, and then reduce, civil service (i.e. outside of parastatals who have already, presumably been put on their own with the above reforms). End the guarantee of public sector employment for graduates. At the same time raise real wages in the civil services but vigorously enforce regulations against second job holding and consulting outside the government sector. The objective here is to restore efficiency in government by eliminating "moonlighting".

e. Attempt to target food, utility and transport subsidies more tightly on the lowest income segment of the population. Some careful study and thinking needs to be done on alternative ways to improve targeting. Means testing transfers is probably too difficult to implement. Reducing subsidies in regions where expansion of employment is going, e.g., where export agriculture is growing, might be one approach. Tying ration cards only to transitional employment schemes might be another.

f. Address the possibility of reallocating educational expenditures toward those levels of education and types of curricula which appear to provide the best chance of improved livelihood in the reformed economy.

We propose this sequence of reforms as an example, recognizing that we are not very well informed about Egypt and there may well be good reasons why any or all of them don't make sense and that any such series of steps is easy to speculate about but difficult to actually implement. We believe careful study, thinking and debate about this kind of sequencing is needed to help move forward the process of reform with improved chances for realization of goals in the long run.

2. Case Studies of Labor Market Institutions Understanding of the institutional particularities of a country's labor markets is necessary to the determination of where and how to look for the impact of stabilization and adjustment reforms or the lack of progress in instituting and implementing such reforms. Individual country case studies should be undertaken to that end. The multi-country studies have shown that the way government regulations and unions operate in and influence the processes of adjustment have differed a good deal from country to country. To what degree is it likely to be feasible to engage support from organized labor for the reform process and what steps would be most likely to do so appears to be a question of importance for several of the Near East countries. At the same time as developing case studies for the individual countries in the Near East, it is important to

see what further can be learned from the experience of other countries.

3. Detailed studies of the labor market in the export sector As a central objective of adjustment policies is to promote the growth of exports, it would seem important to obtain and analyze systematically information on employment, wages and labor costs at a detailed level of industry disaggregation for the export sector. What are the levels and the change in levels of employment in the various export industries? What is the occupational and or educational breakdown of their labor force? What is the level and change in level of composition? For all these questions differentiation by gender is important to obtain. How far into the informal sector do the links to formal sector export activity go? In Tunisia, has the export sector, in fact, shifted toward more labor intensive techniques and is employment growing as Rucker indicated likely? For Jordan, how has the export sector adjusted to the loss of markets in Iraq?

4. Wage Inflexibility Downward We tentatively concluded from the evidence at hand (for those countries that had any evidence) that there was no indication of downward inflexibility of wages. However, more careful study is needed to conclude with confidence that this is the case in each country. In particular, there was some question about the degree to which minimum wage laws were strictly enforced in Tunisia, and whether that, combined with union strength created a situation in which wages in the formal sector might not exhibit some downward rigidity.

5. Monitor Educational and Training Efficiency Several studies indicated that the curricular structure and the set of incentives implicit in education and in the structure of public employment have led to human capital formation which may not be most appropriate for a reformed economy. As suggested in Section VIII on data, a good way to get started in looking at the connections between the educational system and the labor market would be to mount tracer studies of the graduates of educational and training institutions - which provide information on how graduates with various backgrounds actually fare in post graduate employment. Studies which attempt to isolate the factors which lead to relatively lower enrollment and completion rates of women are needed and the extent that it is related to their perceived prospects in the labor market should be determined. Studies could also usefully investigate the extent of existing apprenticeship and skills training activities and whether they can be reoriented or created in such a way as to contribute to the goals of structural adjustment. Consideration should be given as to whether training-tax/training-subsidy schemes should be experimented in with in some of these countries. Experience with such schemes in other countries is mixed, but there is a theoretical argument that they may help to overcome a tendency of firms to underinvest in human capital for fear of losing it to competitors. A study paper trying to pull

together the arguments for and against such schemes and the variety of experiences with them in various countries might be a good starting point. (We know of no such study, though it may be one does exist).

6. Gender in Labor Markets While there have been a number of recent studies of gender differences in labor markets in developing countries, we did not come across any for the Near East countries under consideration. An important starting point would be studies of the factors which influence the labor force participation rates of women in these countries. An important aspect of the future course of labor markets in these countries is the evolution of labor force participation. Will factors associated with adjustment tend to raise the l.f.p.r. of women? Does gender segmentation of labor markets hinder structural adjustment processes in these countries? Will the adjustment process cause shifts in the gender segmentation of labor markets? In particular, it seems that it would be useful to examine and monitor the progress of the participation of women in export industries. In many developing countries growth in manufactured exports has been in industries which hire greater proportions of women. Which specific industries are women in and which do they seem to be excluded from? How does this differ across countries and what can be learned about barriers to access from such differences as are found? What happens to the women as these export industries mature, do they move up in skills as the industry becomes more sophisticated or are they pushed out? If they leave do they carry modernized skills and attitudes to other sectors?

7. Studies of the Informal Sector The lack of data and studies of the informal sector in the Near East countries under consideration has already been noted several times and in section VIII the collection of data on this sector is given high priority. As already noted, an issue of some interest is the degree of linkage of informal sector activities into the export sector, both the already established export sector and any export growth that emerges as a result of structural adjustment.

8. Rural Non-Agricultural Employment and Earnings There is evidence in several of the countries that non-agricultural employment and earnings in the rural sector are substantial. This is a phenomenon which has been, to our knowledge, relatively rarely studied and can be important as part of how labor markets adjust under stabilization and structural adjustment. To what degree is this employment related to the character and level of activity of the agricultural base, i.e., is much of it fairly direct support in providing agricultural inputs and marketing of agricultural outputs? How would growth of export agriculture be related to such activities? Would support employment grow and change? What skills are most important in such activities? To the extent it is not related to the agricultural base, how much of it is light manufacturing as opposed to services? What is the growth potential, the

gender distribution of such activity? Are there special forms of technical assistance which would facilitate growth in such industries? Are such opportunities important in affecting the rate of rural-urban migration?

A related topic is rural-rural migration. Is this phenomenon currently important in any of these countries? Are there unrealized potentials for export growth, say in agriculture, whose exploitation is impeded by barriers to rural to rural migration?

9. Critical Skills for Modernization and Export Growth A topic which we did not discuss much in the previous sections of this study is that of skills which may be critical for the accomplishment of the goals under structural adjustment. In order that exports grow, the exporting country must be able to penetrate the markets of the receiving countries. The experience of several of the Asian countries accomplishing this goal suggests that the development of expertise in the marketing of a given export can be quite important. Unless the export activity is created primarily through foreign capital with existing expertise and entry in the specific market, the developing country will have to develop its own skills in this regard. Packaging, meeting standards of quality and reliability, solving problems of distribution are all parts of this process. A conscious policy to develop and promote such skill development could be an important part of increasing export growth. Some investigation may be needed of the extent and character of such skills in each country and whether special efforts may be needed to facilitate their development. In addition, some of the support functions such as finance and international transportation, may need modernization if they are to facilitate export growth, and their skill requirements should be addressed. A related topic, which we will not pursue here, is the skill requirements to facilitate technological transfer. While there have been, and are, ongoing studies of the technology transfer process and policies to promote it, we know of no studies of the roles to be played by particular types of skills at different stages of the transfer process.

10. Labor Market Structures to Deal with Fluctuations The more open economy which may result from the success of policies of stabilization and structural adjustment may be subject to greater fluctuations in economic activities because of external economic developments. Can labor markets be structured so that the impact of fluctuations is better absorbed, doing less damage to long term growth potential and more equitably spreading the burdens of fluctuations? We have already suggested that a wider use of "share contracts" might have these properties. This needs more careful study and perhaps some direct experimentation on a limited scale so that one can move beyond the theoretical properties of such proposals to more concrete consideration of forms it might take and how it might be implemented. There may be other types of structures that would have similar effects.

It was noted that Tunisian agricultural suffers from considerable climatic variation generating wide swings in year to year earnings. Is there a way of developing other economic activities in those regions which could be productively engaged in during the adverse period, much like attempts to develop countercyclical public works policies in many countries? In developed countries, noting the increased vulnerability to international competition, increasing emphasis is being put on "cross-training" workers so that they have a wider spectrum of skills, a broader overview of productive processes and are better able to switch jobs in response to the needs to change production activities.

It is clear that international migration and the backflow of remittances has been a very important of all of the Near economies under consideration and an element which has introduced large fluctuations in foreign exchange and internal markets, including labor markets. Some thoughtful work needs to be done on how policies and institutions which might help the economies to adjust to these flows and their variability in the better ways to as to increase long term social and economic benefits. We are not aware of any studies which have attempted to develop such policy and institution-building ideas in this line.

11. Studies on the Distributional Impact of Adjustment In section VII we reviewed what was known about the distributional impacts of structural adjustment in the countries under consideration. We believe it would be useful to have thorough studies of the distributional impacts in all the countries. We noted that such studies exist for Egypt and Morocco and believe that they provide good models, especially in the Egyptian case, for what might be accomplished in other countries. We leave this recommendation to last, however, not because it is not important but because it is highly dependent on the quality of available data; where the data are weak there may be little point in attempting to undertake it and resources would be better devoted to developing the data base so that it could later be productively carried out.

Appendix A

Table IV-1

Real and relative Annual Earnings, White Male Full-Time Year Round Workers (in 1987 dollars)

	---Aged 25-64---			---Aged 25-34---		
	1973	1979	1987	1973	1979	1987
<u>By Years of Schooling</u>						
Real Earnings						
High School Dropouts	22134	21353	19169	20123	18693	15922
High School Graduates	26822	26155	24651	24719	23440	21420
College Graduates	35371	33815	35848	30034	27583	30132
Earnings Ratios						
College/Dropouts	1.60	1.58	1.88	1.49	1.45	1.86
College/H.S. Grads	1.32	1.30	1.46	1.22	1.16	1.39
<u>By occupation</u>						
Real Earnings						
Handlers/Service Workers	18703	17912	16844	19226	17931	15699
Operators	23300	23412	22260	22307	21926	19908
Managers/Professionals	34613	33495	35817	25951	27514	29537
Earnings Ratios						
MP/H&S	1.86	1.88	2.13	1.62	1.54	1.86
MP/OP	1.48	1.42	1.62	1.32	1.26	1.48
OP/H&S	1.24	1.31	1.32	1.22	1.28	1.27

a. The figures reported are geometric means for annual earnings over the calendar year proceeding the survey. Data are from the U.S. Current Population Survey public use samples for March of the given year.

Source: Blackburn, McKinley L., David Bloom and Richard Freeman "The Declining Economic Position of Less-Skilled American Males" National Bureau of Economic Research Working Paper No. 3186 Nov. 1989

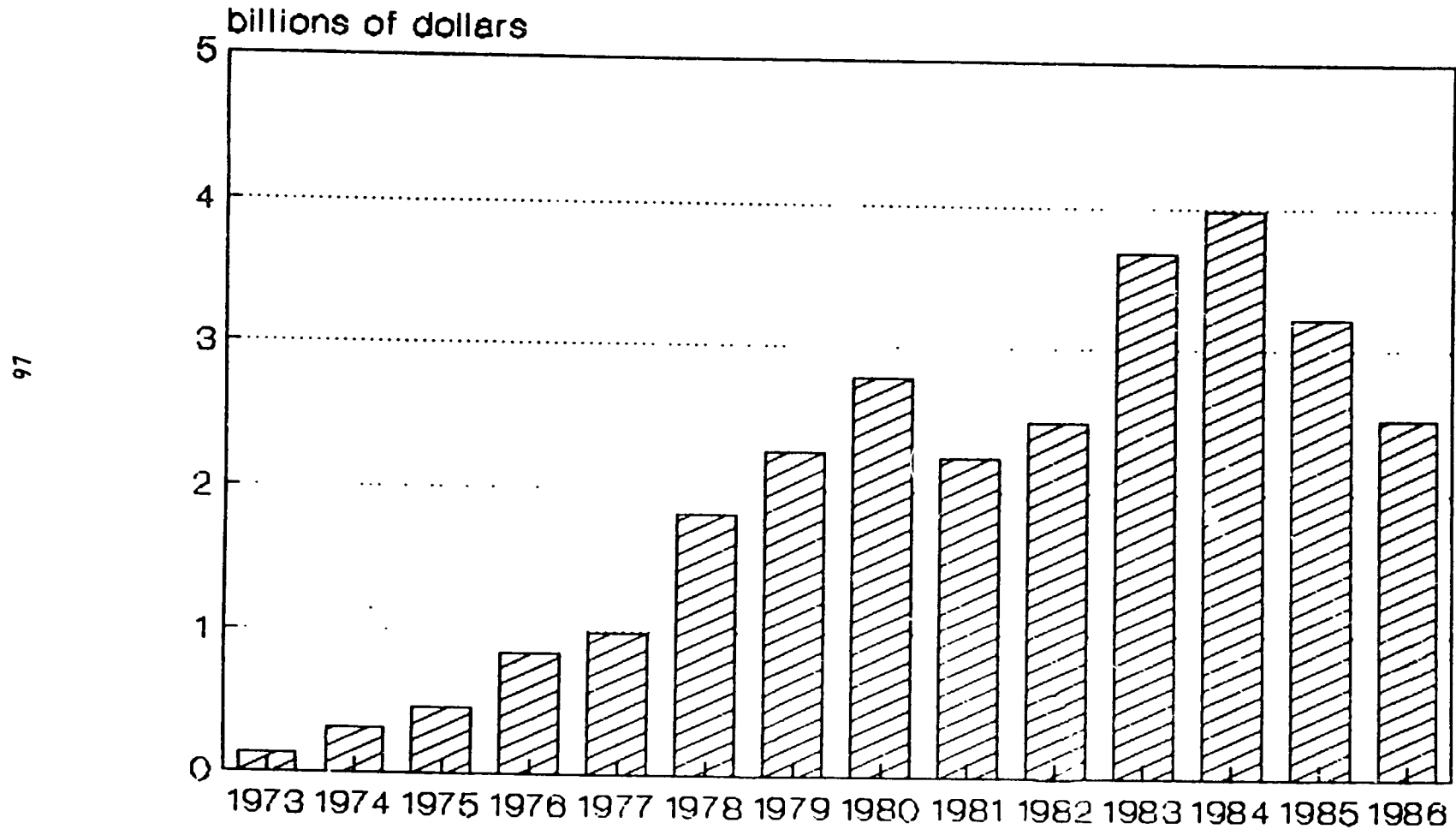
Appendix B

Table V-1

Urban Population as a Percent of Total Population

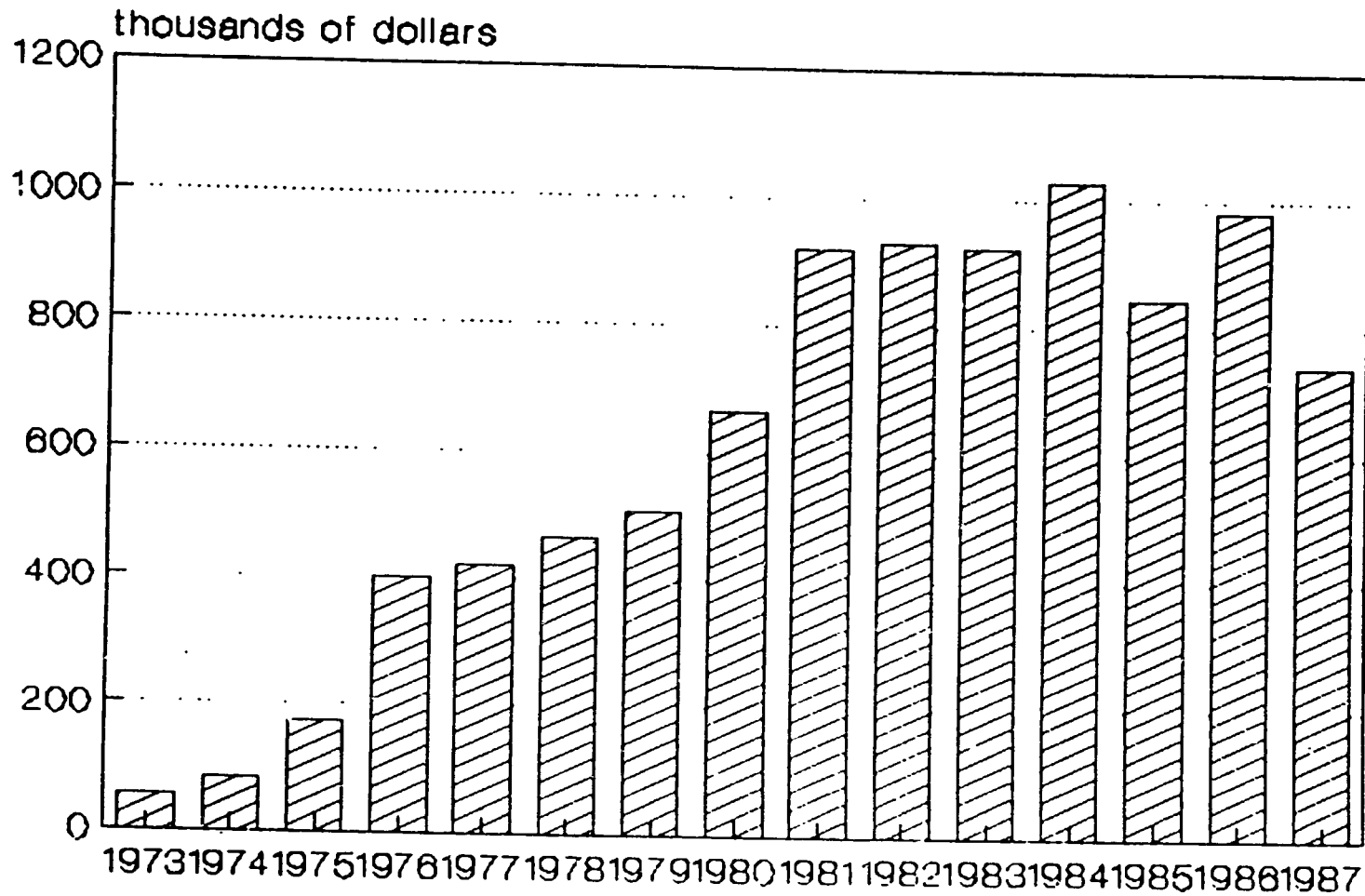
	1965	1970	1975	1980	1985	1987
Urban population as % of total						
Egypt, Arab Republic of	41	42	44	45	47	48
Israel	81	84	87	89	90	91
Jordan	46	51	55	60	64	66
Morocco	32	35	38	41	45	47
Oman	4	5	6	7	9	10
Tunisia	40	44	48	52	53	54
Yemen Arab Republic	5	8	11	15	20	23
Yemen, PDR	30	32	34	37	40	42

Egypt: Official Remittance Flows



Source, FAO, 1990, IMF IFS

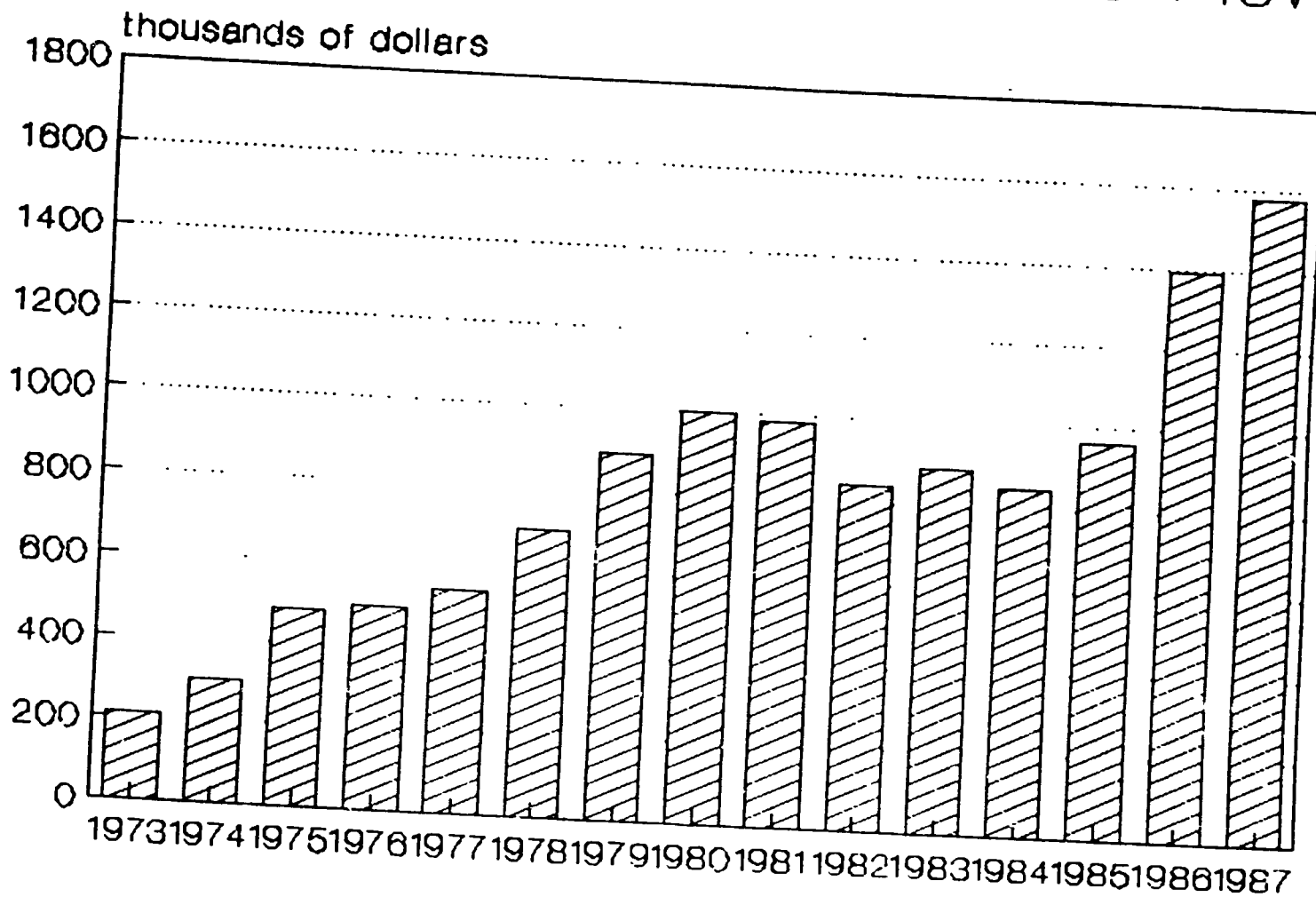
Jordan: Official Remittance Flows



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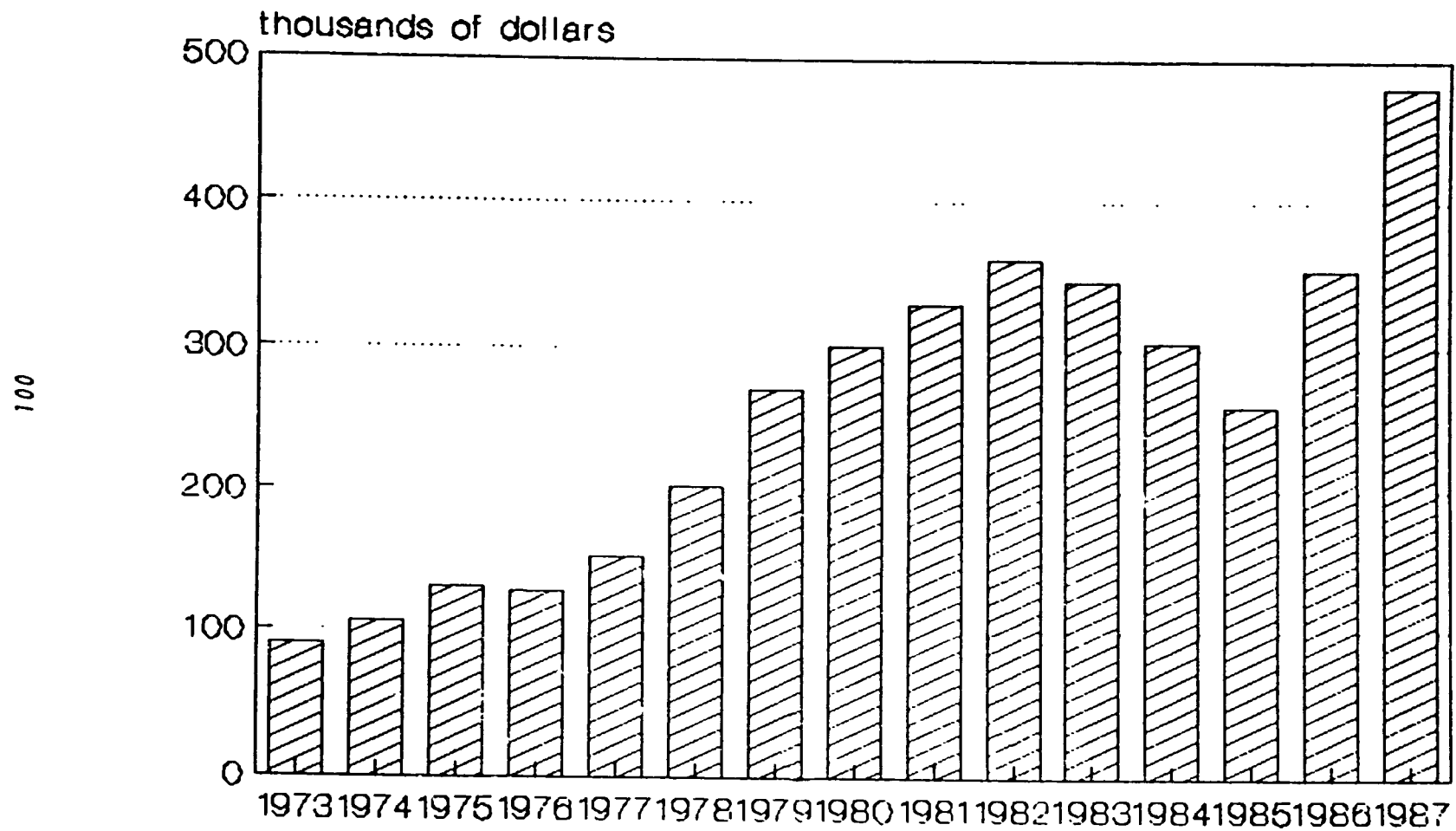
Source: FAO, 1990, IMF IFS

Morocco: Official Remittance Flows



Source. FAO, 1990, IMF IFS

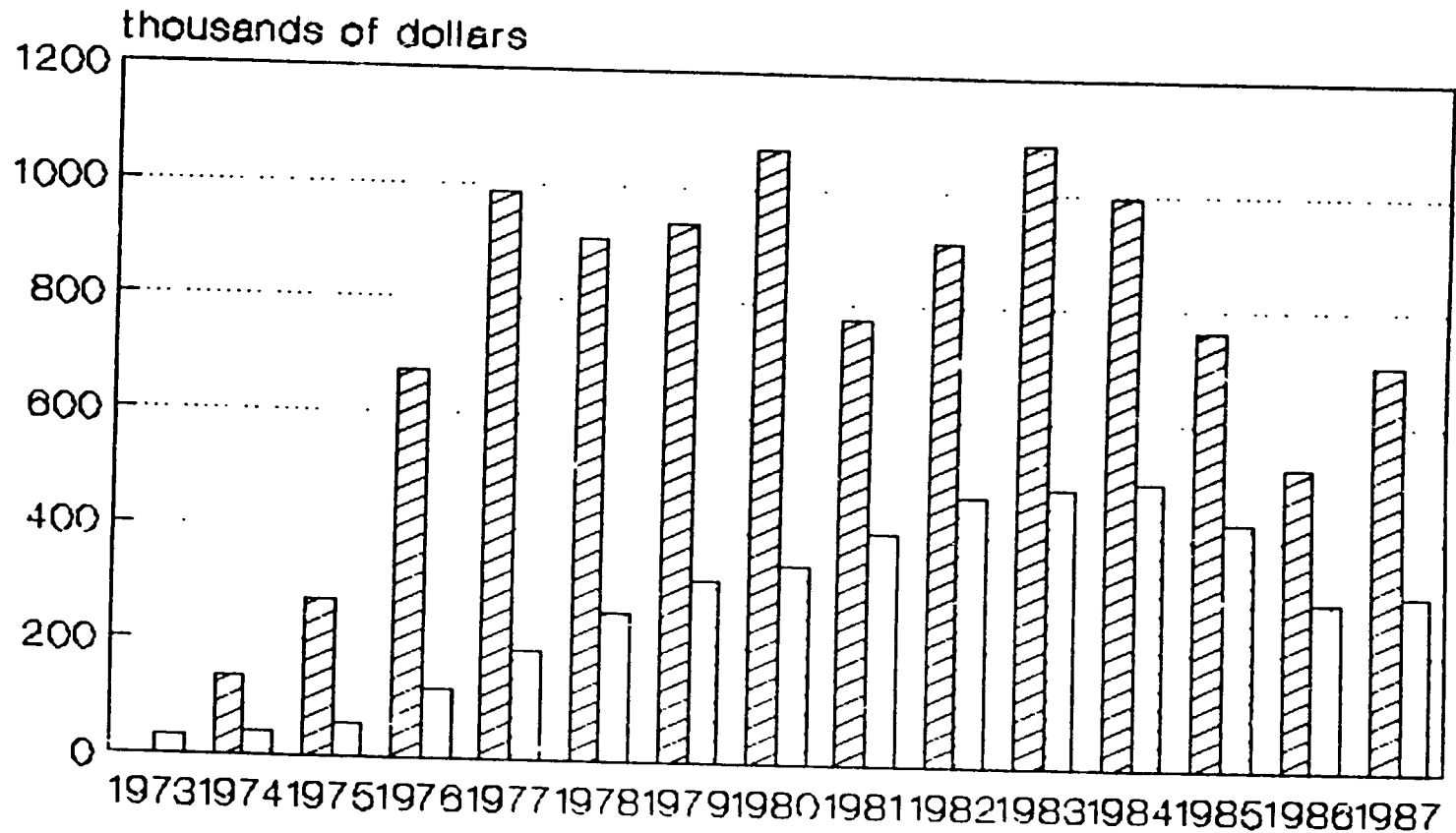
Tunisia: Official Remittance Flows



Source, FAO, 1990, IMF IFS

The Yemens: Official Remittance Flows

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YAR PDRY

Source, FAO, 1990, IMF IFS

Table V-2

		Official Remittances, 1973-1987					
		country					
Year		Egypt	Jordan	Morocco	Tunisia	Yemen	Dem Yemen
1973	% of imports	13.4	16.8	18.4	13.3	...	19.2
	% of exports	11	75.9	23.2	21.6	...	32.9
1974	% of imports	13.2	16.8	15.7	9.4	71.3	10.2
	% of exports	20.5	52.9	17.5	11.5	...	18.8
1975	% of imports	11.6	23.5	18.8	9.2	91.9	18.2
	% of exports	29.9	112.4	31.2	15.3	...	34.2
1976	% of imports	22.1	39.9	19.1	8.4	163.7	29
	% of exports	55.3	194.1	39.2	16.2	...	67.4
1977	% of imports	20.5	30.5	17.1	8.3	94.9	34.4
	% of exports	57.9	169	41.9	16.4	...	103.5
1978	% of imports	27.1	31.2	23.6	9.5	70.9	44.3
	% of exports	105	157	46.6	18.1	...	132.7
1979	% of imports	59.1	25.9	24.2	9.5	62.8	32.2
	% of exports	123.3	126.3	45.5	15.1	...	63.9
1980	% of imports	57.4	27.8	23.6	8.5	57.7	21.1

		Official Remittances, 1973-1987						
		country						
Year		Egypt	Jordan	Morocco	Tunisia	Yemen	Dem Yemen	
	% of exports	91.6	116.1	41.1	13.5	...	41.5	
1981	% of imports	25.4	29.1	22.5	8.7	44.2	26.7	
	% of exports	69	125.8	41.4	13.2	...	62.4	
1982	% of imports	27.3	28.8	19.5	10.6	59.9	26.9	
	% of exports	79.5	124.1	40.7	18.2	...	54.1	
1983	% of imports	35.9	30.4	24.7	11.1	68.1	29.4	
	% of exports	114.8	159.3	44.3	18.7	...	65.2	
1984	% of imports	37	36.9	21.7	9.6	...	31.1	
	% of exports	126.8	136.7	39	17	...	74.3	
1985	% of imports	32.3	31	25.1	9.4	29.3	...	
	% of exports	86.6	107.3	44.2	14.9	
1986	% of imports	21.9	40.5	36.6	12.2	59.2	...	
	% of exports	85.7	134.3	58.8	20.1	
1987	% of imports	...	27.4	37.3	15.8	
	% of exports	...	79.9	56.3	22.5	
source: Excerpted from FAO, 1990, p. 63, emphasis added								

Table V-3

Egypt: Structure of the Labor Force 1973-1986 (1)

Economic Sector	# of persons (millions)			Annual Compound Growth Rate (percent)		Share of Total (percent)			Share of Increase (percent)	
	1973	1982	1986	73-82	82-86	1973	1982	1986	73-82	82-86
Agriculture	4.7	4.3	4.2	-1.1	-0.4	50.5	36.8	32.7	-19	-5
Mining & Quarrying includes petroleum	0.0	0.0	0.0	3.8	19.2	0.2	0.2	0.4	0	2
Manufacturing (2)	1.3	1.7	1.4	2.9	-3.7	13.9	14.4	11.2	17	-18
of which ISI (3)	0.7	0.7	0.7	0.2	0.8	7.4	6.1	5.6	0.7	1.8
Construction (2)	0.3	0.6	0.8	9.5	6.7	2.8	5.3	6.2	15	15
Services (4)	2.9	4.3	4.8	4.6	2.3	31.0	37.6	37.1	64	33
of which Transport	0.4	0.6	0.6	5.5	0.5	4.1	5.3	4.9	10.5	1.0
Total Employment	9.1	10.9	11.2	2.0	0.8	98.5	94.3	87.6	78	27
of which Gov't	1.5	2.0	2.4	3.6	4.3	15.9	17.7	18.9	25.1	30.2
Public enterp.	0.9	1.2	1.2	3.9	0.3	9.3	10.6	9.7	15.9	1.0
Private (10+)	0.2	0.3	0.3	4.5	7.7	1.8	2.2	2.7	3.6	7.1
Unemployment	0.1	0.7	1.6	17.0	22.1	1.5	5.7	12.4	22	73

Egypt: Structure of the Labor Force 1973-1986 (1)

Economic Sector	# of persons (millions)			Annual Compound Growth Rate (percent)		Share of Total (percent)			Share of Increase (percent)	
	1973	1982	1986	73-82	82-86	1973	1982	1986	73-82	82-86
Total Domestic Labor Force	9.3	11.6	12.8	2.4	2.6	100%	100%	100%	100%	100%
Workers Abroad (5)	0.1	0.6	1.2	23.7	23.4	0.8	5.2	9.4		

Egypt: Structure of the Labor Force 1973-1986 (1)

Economic Sector	# of persons (millions)			Annual Compound Growth Rate (percent)		Share of Total (percent)			Share of Increase (percent)	
	1973	1982	1986	73-82	82-86	1973	1982	1986	73-82	82-86

CHART TAKEN FROM ASSAAD AND COMMANDER, 1989

Sources:

-CAPMAS, Labor Force Sample Survey (LFSS) for 1973 and 1982

-CAPMAS, 1986 Population Census, Results of the 20% sample for 1986

-Private (10+) data are from CAPMAS, Employment, Wage and Hours of Work Bulletin

-Government employment data are from Hansen and Radwan (1982, Table A.1) for 1973, and from CAPMAS,

Permanent Employees in the Government and the Public Sector, for 1982 and 1986. (1983 data were adjusted to yield the figure for 1982).

-Public enterprise data are from the Public Enterprise Information Center, Cairo, Egypt.

-Migration data are from Fergany (1988)

Notes:

(1) Includes individuals 12 to 64 only. Labor force proportions for 1973 and 1982 were calculated from the respective Labor Force Sample Surveys and applied to labor force estimates based on census results, to achieve compatibility with 1986 census data.

(2) The share of manufacturing seems to be understated and that of construction overstated in 1986.

(3) ISI (Import-Substitution Industrialization) includes all public and private (10+) manufacturing.

(4) Services include utilities, commerce, finance, insurance, real estate, transport, communication, community, social and personal services.

(5) The estimate of the number of Egyptian workers abroad in 1986 is in fact the figure Fergany (1988) provides for early 1985. No estimate is available for 1986.

Table V-4

	1975	— 1984	1989
Agriculture	37	27	26
Services	34	38	40
Industry	29	35	35

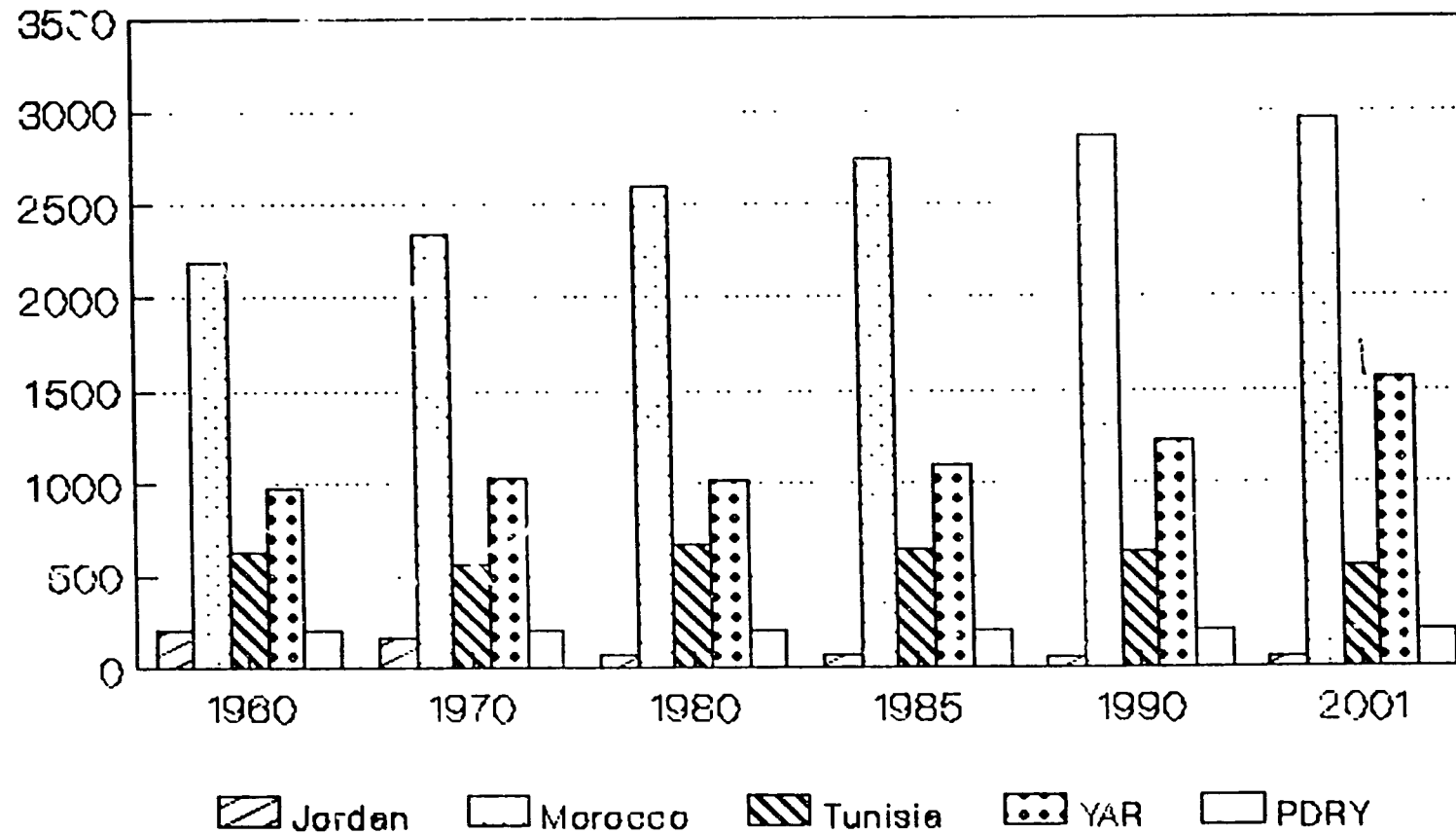
Table V-5
Cereal Imports and Food Aid in Cereals 1990
thousands of metric tons

	Imports	Aid	
Egypt	8,580	1,210	—
Israel	1,802	...	
Jordan	1,491	250	
Morocco	1,578	219	
Tunisia	1,439	479	
Yemen	2,001	...	

source: WDR 92

Agricultural Labor Force

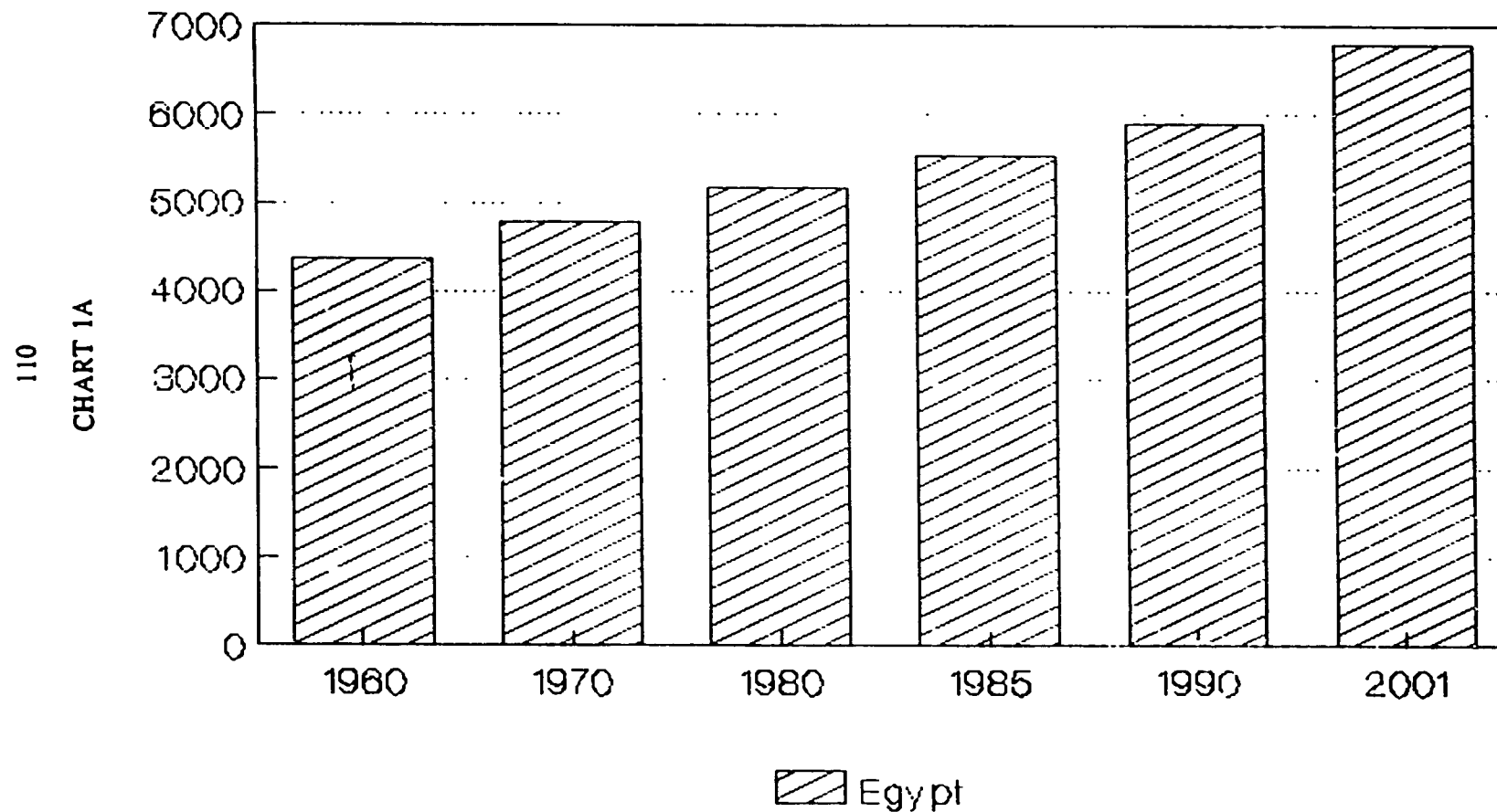
Estimates and Projections in thousands



Source: FAO

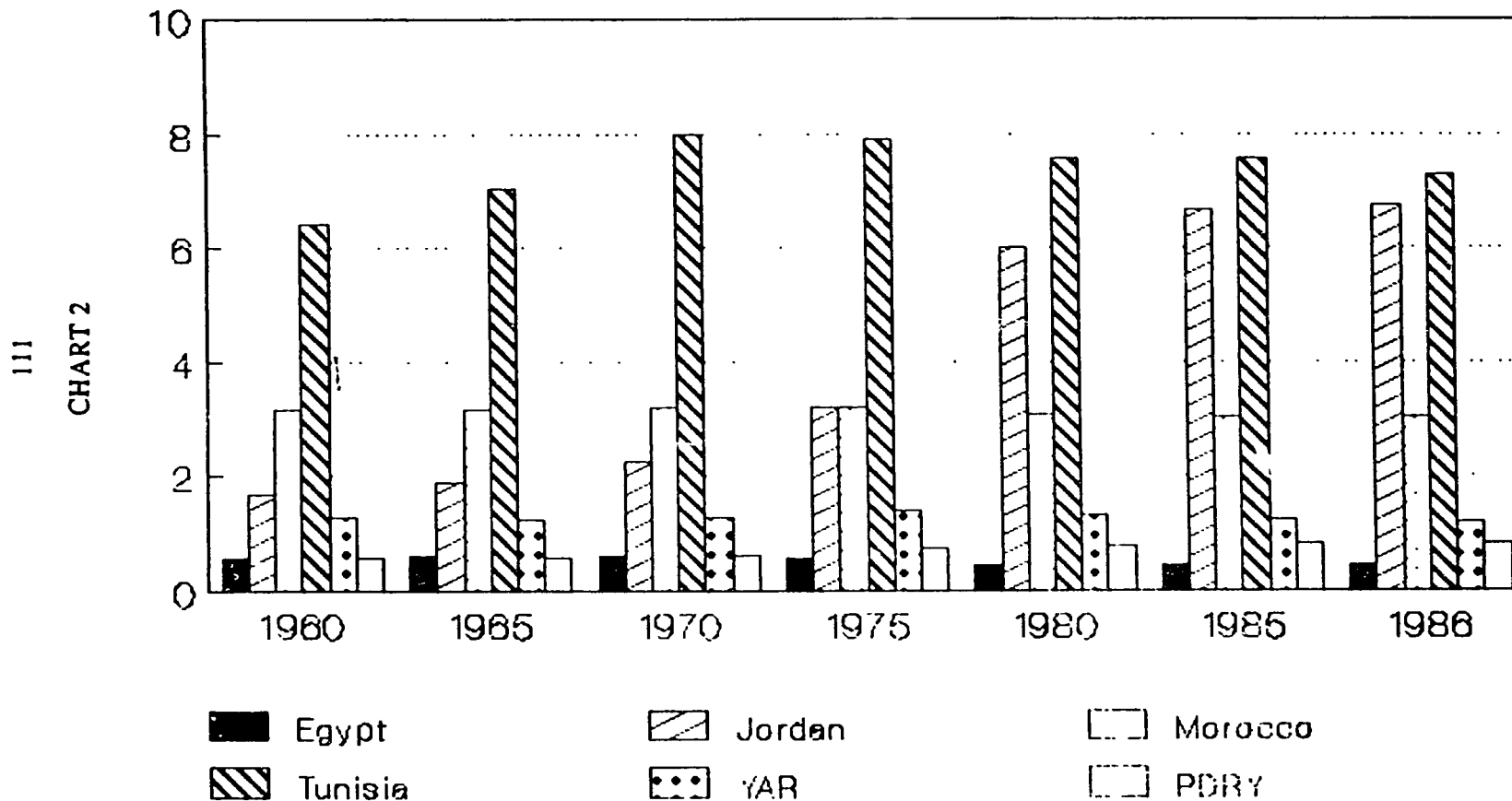
Agricultural Labor Force -- Chart II

Estimates and Projections in thousands



Source: FAO

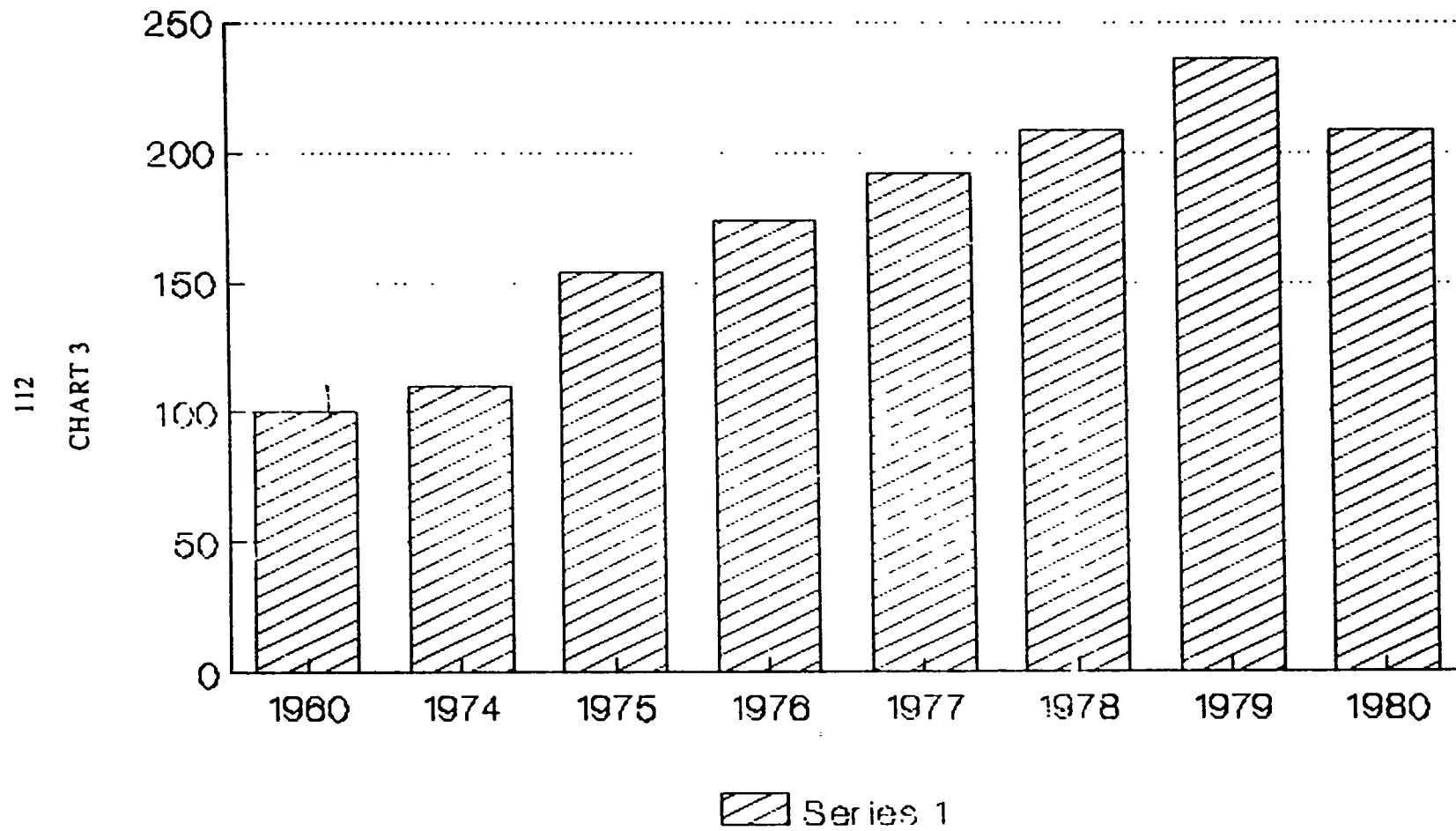
Ratio of arable land to economically active population in agriculture



Source: FAO

Real Agricultural Wage, Egypt

from the FAO

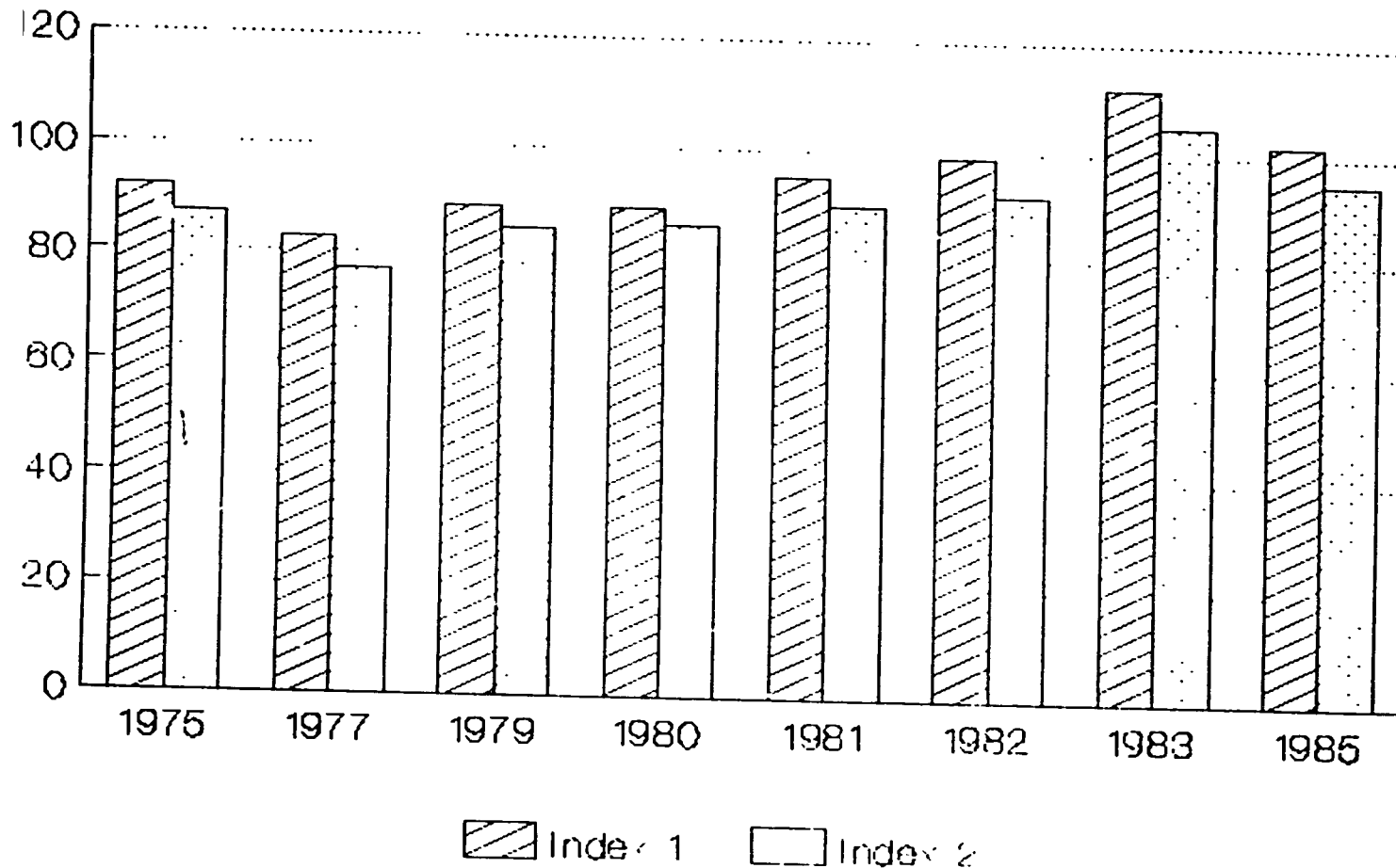


Index of Real Agricultural Wage, Morocco

from the FAO

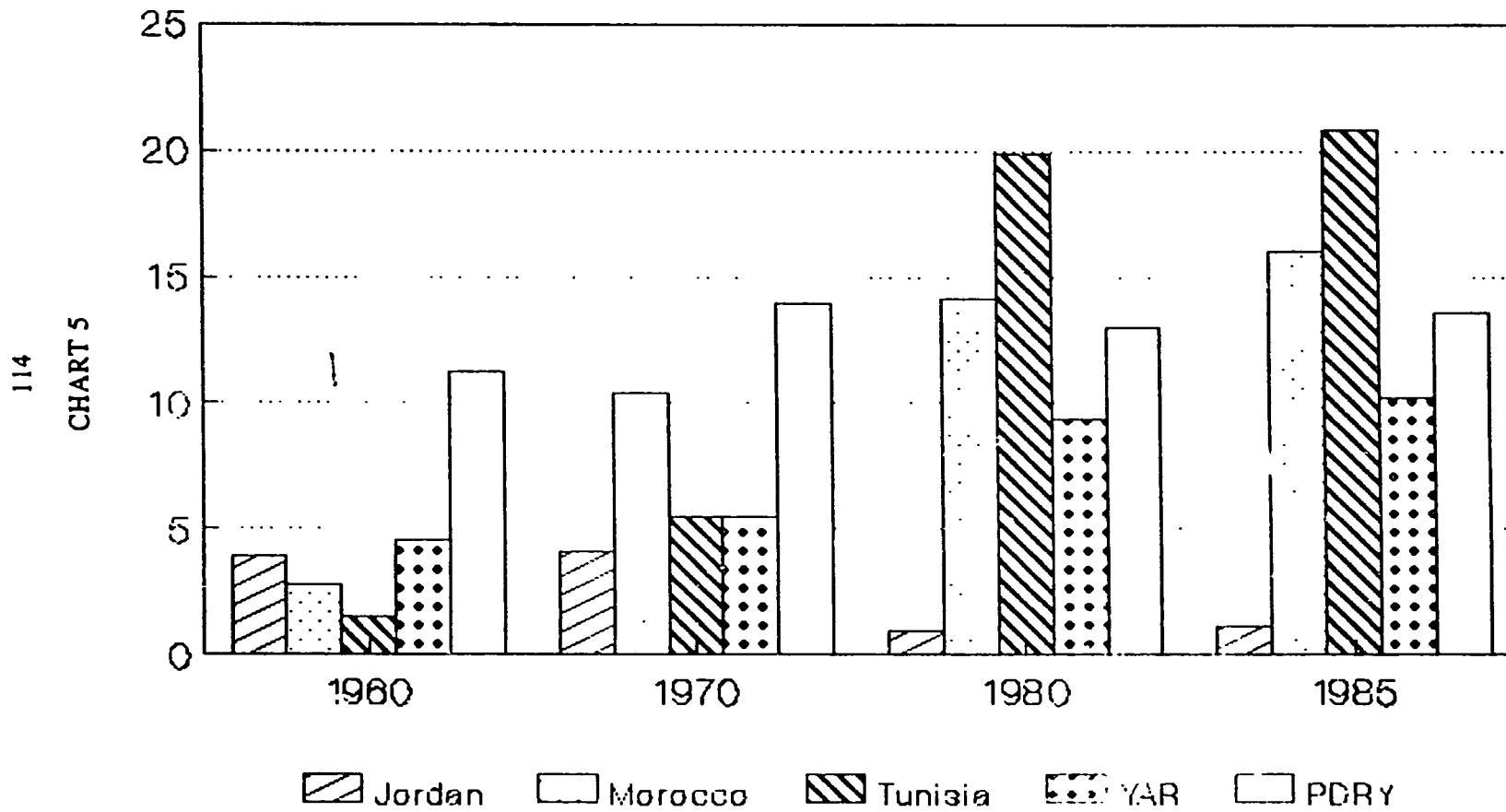
113

CHART 4



Deflators: Index 1 - CPI
Index 2 - Food Prices

Agricultural Labor Force, Percentage of female farm labor



FAO, 1990

Table V-6
Enrollments as a Percent of the Relevant Age Group

	1965	1970	1975	1980	1981	1982	1983	1984	1985
Gross enroll. ratio, primary, total(% school age grp)									
Egypt	75	72	71	78		82	84	86	87
Israel	95	96	97	93		97	98	99	99
Jordan	95			104		100	99		
Morocco	57	52	62	78		85	86	80	81
Oman		3	44	60		69	75	83	89
Tunisia	91	100	97	103		111	114	116	118
Yemen, YAR	9	12	29	46	53	62	67		79
Yemen, PDR	23	57	81	65	64	64	66		

	1965	1970	1975	1980	1981	1982	1983	1984	1985
Gross enroll. ratio, primary, female(% school age grp)									
Egypt	60	57	57	65		70	73	75	77
Israel	95	95	97			97	99	101	101
Jordan	83			102	100	98	99		
Morocco	35	36	45	59	60	66	66	62	63
Oman		1	24	42		53	62	72	80
Tunisia	65	79	78	88		98	102	105	108
Yemen, YAR	1	2	7	12	13	18	22		31
Yemen, PDR	10	23	51	36	34	34	35		
Gross enroll. ratio, second., total(% school age grp)									
Egypt	26	35	43	54		57	59	60	66
Israel	48	57	66	70		73	74	76	76
Jordan	38			76		78	79		
Morocco	11	13	16	25		28	29	31	32
Oman			1	14		22	25	29	33
Tunisia	16	23	21	27		31	34	36	39
Yemen, YAR	0	1	4	5	6	7	10		15

	1965	1970	1975	1980	1981	1982	1983	1984	1985
Yemen, PDR	11	10	23	18	18	19	19		
Gross enroll. ratio, second., female(% school age grp)									
Egypt	15	23	31	41		45	47	46	54
Israel	51	60	71			78	78	80	80
Jordan	23			73		77	78		
Morocco	5	7	12	19		22	24	25	26
Oman			0	7		12	15	18	22
Tunisia	9	13	15	20		24	27	30	33
Yemen, YAR		0	1	1	2	2	3		3
Yemen, PDR	5	4	10	11	11	11	11		
source: World Bank, Social Indicators of Development									

Appendix C. Examples of job creation programs

a. Bolivia: The Emergency Social Fund

In 1986 Bolivia established an agency to finance projects selected from proposals made by local government and grass-roots organizations¹⁰⁶, about 75% of which are concerned with income generation or small-scale employment. The ESF was originally conceived by President Paz-Estenssoro and developed by the Bolivian government before external donors were sought. The ESF was supposed to have a three year life but a more permanent incarnation - a social investment program should be forthcoming. Indeed, Bolivia's success with quick disbursement and private and local organization inclusion has lead other countries to establish such programs, among them Jordan (Newman, et. al. 368).

The ESF is funded by the government (\$8 million over four years) and multilateral and bilateral donors (\$172 million). A wide range of projects have been initiated, ranging from infrastructure to agriculture to social programs such as the building of low-income housing, with 87 percent of the spending devoted to construction and reconstruction of social and economic infrastructure (Kingsbury, 22). At its peak in 1988, the ESF employed 20,000 and had generated 383,000 person-months of employment by April 1990 (Kingsbury, xi).

Under Bolivia's adjustment program a number of groups suffered. The public sector was cut, with wages frozen and perquisites removed for those who remained. Parastatals were also severely trimmed with 23,000 of 30,000 workers in the state tin mining company fired, given a (Bolivian) golden hand shake of \$3,000. The end of hyperinflation led to a higher demand for domestic currency and an appreciation that resulted in fall in real prices which hurt small highland farmers who were already suffering increased costs under a new fuel tax. Overall tax reform (a VAT and an income tax) hit all of those outside of the informal sector.

To redress some of the costs these groups were bearing the government introduced the ESF. For the most part (90 percent), the tin miners did not participate, as they had received compensation at severance equal to a little less than five times the GNP per capita. Ninety-nine percent of the workers who did participate were males and 93 percent were the reported head of household. Few had other employment as only 7 percent of the ESF workers had a secondary job (Newman et. al., 373).

Most of the ESF jobs (91 percent) were in construction. However, compared with other workers in construction, ESF workers tended to be less educated, however, the fact that the projects paid market

¹⁰⁶ The program was initially launched in 1985 but reconstituted in 1986.

wages or above ensured a relatively good product. A majority of the workers (54 percent) had a job before the ESF, while 39 percent of the ESF workers were seeking work prior to working for the ESF.

Newman, et. al . run a counterfactual analysis and summarize the gains for the average ESF worker as: "increases of 13 percent in wages, 9.5 hours in weekly work, and 35 percent in weekly earnings over expected levels without the ESF. Taking into account the possibility that the individual may not have worked without the ESF leads to larger gains." (387) It is interesting to note however, that the data shows compliance with the permanent income hypothesis, i.e. the families have moved into higher income quartiles, but have not moved into a higher food expenditure quartile.

The program did not improve the skills of the workers by a significant amount as a) most of the work required minimal skills, and b) most workers came from a background in construction.

In terms of the provision of benefit to the rural population not employed in the projects, the ESF may have been regressive, as the demand-driven nature of distribution favored communities with well developed administrative infrastructures. Recognizing this fault, Bolivian officials sought to assist these communities.

b. Chile: Employment Programs

A severe depression in 1982-83 raised unemployment to 33.8 percent or 19.6 percent after emergency work programs by the end of 1982. The government has long used emergency work programs to alleviate unemployment. Starting in the 1970s, as unemployment surged from 4.8 percent in 1973 to 17.6 percent in 1975, the PEM (Minimum Employment Program) and the higher paying POJH (Occupational Program for Heads of Households) were introduced as temporary measures. The PEM operated on a self-targeting mechanism as wages paid were 25 percent of the legal minimum wage and those applying had to be unemployed. The POJH was more actively targeted as eligibility was determined by a poverty index.

By 1983 the PEM employed 200,000 (40% of those in emergency employment programs at the time - in 1983 EEPs employed 11% of the Chilean work force). The programs were also very helpful in helping women to break the discriminatory barriers - by 1983 75 percent of those in EEPs were women. Since 1983, the employment situation has improved and other more efficient programs (e.g. the municipality-construction oriented PIMO) have been put into place. It is estimated that in 1986 some 240,000 persons "benefitted" from Chile's emergency employment programs.

Chile presents an interesting case - it is one of the longest cases of sustained adjustment but this

has been accompanied by long term "temporary" employment creation measures. This may suggest longer term unemployment effects under structural adjustment. As a 1983 study by the University of Chile indicated 70 percent of those employed on work programs were willing to undertake another activity if employment were available.

c. Ghana: Programme to Mitigate the Social Costs of Adjustment (PAMSCAD)

Initially conceived in 1987, the multisector (23), multiagency (13 ministries) PAMSCAD has been beset by funding and logistical problems. Some components have operated since 1987-1988, while others are barely getting off the ground.

The program that has operated the longest (although a year behind schedule) is the Priority Works Project which aims to create 10,000 jobs through public works projects. This has provided some temporary employment at below market wages in order to target the poor. Another program is a revolving fund to provide credit for small business created by the redeployed and unemployed. However, the program has been utilized mostly (about 75 percent) by existing businesses. It has also suffered from repayment difficulties which has limited the funds available.

A 1990 donor review recommended cutting the number interventions from more than 20 to 4. The donor team's recommendations including cutting the redeployment program for public servants in a shift from compensation to more of an emphasis on poverty alleviation.

d. The Gambia, Guinea-Bissau, and Senegal: Shrinking the public sector

The Gambia has sought to reduce a public sector that grew tremendously in the late 1970s (doubling from 1976-1980), and received high wages (incomes for the civil service were twice that of groundnut producers). 2,600 workers (mostly low-skilled) were laid off in 1985-86. The government sought to reintegrate them into the private sector through small business loans and training from the Indigenous Business Advisory Service (IBAS). The main problem with the IBAS is the requirement of collateral which a lot of the poorer workers cannot muster. Furthermore, the IBAS tended to reinforce pre-existing commercial patterns, lending 60% to retail (a non-tradeable sector) and only 20% to the priority sector of agriculture. Here we may see the issue of perceived relative prices slowing adjustment, reinforced by government loans.

Guinea-Bissau also laid off lower-skilled government workers, totally 20% or 3,000 workers in the first phase. A donor financed project has sought to resettle these workers in agricultural cooperatives. Another projects seeks to move workers from state trading companies into commerce. The

agricultural project has been oversubscribed, "which indicates that workers now perceive farming to be a better source of income than urban employment," according to Demery and Addison (25). They do not however, indicate explicitly how this change in perception was effected - was it simply that the government was offering significant incentives through the resettlement scheme, or was there another factor? An underlying assumption, of course, of all this is that adjustment will raise the real incomes in agriculture.

e. Senegal

Senegal established two loan funds under the Directorate for Insertion and Reinsertion into Employment (DIRE) to aid redundant civil servants and recent university graduates in setting up small-scale enterprises. This program has been plagued by embezzlement (\$3 million of the original \$11 million), a 32 percent bankruptcy rate, underutilization of a training component and the fact that 20 percent of the loans were granted despite failing to meet criteria. It is interesting to that note in a similar scheme - the (USAID supported) Voluntary Departure Program in Mali when more stringent review was imposed in the form of local commercial banks, not a single loan was granted in a single year. Hence the tension between compensation and market.

f. Within the private sector: encouraging mobility

Adjustment will also create unemployment in the private sector as the economy shifts. The State can intervene to help workers with the adjustment. Some of the Brazilian states have facilitated workers moves, especially back to agriculture. Jamaica's Human Employment and Resource Training (HEART) program has helped 4,000 young Jamaicans by placing them in apprenticeships or technical training institutes.

Appendix D: Discussion of Data on Labor Markets

In this section we review the different types of data which have been or could be collected concerning labor market functioning, and discuss some of the strengths, weaknesses and problems with each of these types of data collections.

A. Household surveys

Household surveys provide the most useful type of data which can be collected in order to study labor markets. There are several types of household surveys.

1. The population census

The most widely available and widely used source of information about labor markets is the population census. Most population censuses not only get information on family and household characteristics but also obtain information about the labor market status of individuals within the households.

As they are indeed population censuses, their sample size is quite large and permits detailed breakdowns of the population into subgroups for analysis of their experience in employment and how employment is differentially distributed amongst different types of groups in the population and amongst geographic regions in the country.

In some cases the census does gather information on earnings and income although usually at best these are in broadly defined categories of income levels rather than the detail of actual earnings or income for the individuals in the households.

The shortcoming of the census as compared to the labor-force surveys is their irregularity usually at best every five years, more typically every ten years and occasionally even longer in between.

Since political representation is often determined on the basis of the census figures, the census can become the topic of considerable political controversy which can threaten the integrity of the data gathering. There are many notorious cases in which the census has simply been corrupted in order to try to get a greater hold on the political process. In some countries this has led to suspension of census taking for long periods of time.

Increasingly researchers are developing techniques for combining the census with the other household surveys that occur with greater regularity in the inter-census years. And when this is possible, one can do quite a bit to take advantage of both the breath and depth of the census and the time series information provided by the more regular surveys.

2. Employment surveys (Labor-force survey)

Individuals in households are asked questions about their employment. A series of questions determine whether they are in or out of the labor force. This involves asking whether they are currently employed and, if not, determining what efforts they are making to find employment. If they are neither employed nor looking for work they are considered out of the labor force. These data are most useful if they are accompanied by information about the characteristics of the individual, such as their age, their sex, their race or ethnicity (if this is relevant in a given country context) and the level of their formal education.

In the employment domain, questions are asked about the character of the employment, i.e., the kind of business their organization does, and the type of work they do within the organization. These are then coded into standard categories for industry and occupation, usually using the international coding standards as defined by the UN organizations, but in some cases having slight different definitions for occupation or industry relating to the peculiar history of the country in this domain of data collection.

Clearly if one is going to try to trace changes in employment and unemployment over time, it is important that there be repeated samples of households taken over the years and that there be reasonable attempts to maintain comparability in the way questions are asked and the way data are coded, so that time trends in the employment can be consistently traced and not muddled by changes in questions and survey procedures.

3. Earnings and sources of income

In a few cases the regular labor-force survey has been supplemented periodically by questions about earnings of individuals and their sources of income. However, there is considerable aversion to asking these kinds of questions in many countries, and it often takes special efforts to get earnings questions included in surveys. In practice, in most cases it turns out to be possible to get reasonable responses to earnings questions, and to a lesser degree, about sources of income. Increasingly, analysts have wanted to look at the relationship between labor-market earnings and the characteristics of individuals to estimate who characteristics are related to earnings. This yields such things such as the rate of return on different levels of formal education, the extent to which experience is rewarded with higher earnings, differentials in earnings between groups by race, ethnicity and gender.

More globally there is an interest in the distribution of earnings and of family incomes in order to get at questions of income inequality and the extent and character of poverty. Information on the sources of income within a household is important in understanding the interrelationships of labor market

effort of various members of the household, as well as to get a picture of the different types of income. For example in the rural sector as noted above, many families have a mix of agricultural income and nonagricultural income. Also, as noted above, for many of the countries in the Near East remittances have been a very important source of income for many families and it would be very useful to try to capture information on the extent of remittance flows. Questions about the impact of social safety net programs are also illuminated by information about sources of income to the extent that income comes through either special public employment programs or through social safety net programs, such as unemployment compensation or Social Security or disability payments.

An important problem with earnings data gathered through regular governmental surveys is access for researchers to the micro data. Such disaggregated data are necessary in order to estimate, for example, earnings functions. There is a long tradition among departments of statistics in governments of worrying about the confidentiality of earnings data and it often proves difficult to convince them that the problem of confidentiality can be reasonably overcome while allowing access to the micro data.

4. Household expenditures surveys

Many economists have come to prefer data gathered at the household level through detailed diary-type studies of the expenditure patterns of the households. In many circumstances it appears that the information gotten about household income is in fact better obtained in the expenditure survey - where looking at actual expenditures often exceeds the acknowledged sources of income and gives somewhat different conclusions about the actual size of income flows and distribution across households. These surveys are usually considerably more expensive than other household surveys because detailed information over a period of time must be gathered from the household. They may also be a bit more difficult for the department of statistics to implement in developing countries because many of the concepts are more complicated than in the case of regular employment and earnings survey. In general, sample sizes in expenditure surveys tend to be smaller than for other types of household surveys. This makes it harder to do detailed analysis where the sample is broken down into subgroups. The advantage of the employment related surveys relative to expenditure surveys is that they are usually substantial national surveys as the main objective is to obtain estimates of the national unemployment rate.

Extremely sophisticated designs for expenditure surveys have been developed by the World Bank's Living Standards Measurement Studies and have been implemented in a number of countries and over the last ten years. A considerable body of quite sophisticated and insightful studies has flowed from these LSMS surveys. Such a survey was apparently executed in Morocco, but the data has yet to be analyzed due to lack of resources for analysis. It should be a high priority to try to take advantage of

this existing body of data and to obtain good analyses. Household expenditure surveys have often been supplemented by additional survey elements to pick up information that gives considerable insights. A number of studies of family functioning, of nutrition, of family formation, of utilization, of services by families, have emerged from these detailed expenditures surveys.

In most countries the expenditures survey gets started in order to develop consumer price indices. The expenditure survey is usually the vehicle by which representative household expenditure patterns are developed which become the basis for the weighted price index which is called the consumer price index. Where such expenditure surveys exist for this purpose, a sensible strategy is to try to build onto the existing base of the expenditure survey in order to get a richer set of data which can be used for wider purposes of studying labor market processes.

B. Establishment surveys

In most countries a series of surveys has been developed, gathering information from firms about employment and earnings. These surveys are usually primarily designed to gather the information necessary for developing national income accounts, but often ministries of labor become major users of these data sources and indeed in some cases the actual executors of regular employment surveys for industries.

The coverage of establishment surveys tends to be rather uneven, arising from peculiarities of the economic history and social history of the particular country. An advantage of the establishment surveys is that usually they are more frequently and regularly taken and therefore time series can be constructed from them.

1. Employment

Typically the information will include not only gross employment but a breakdown of employees according to occupational categories. A problem which arises is that often the occupational categories utilized are not consistent with the international standards for occupation and are often not very comparable across industries. Increasingly the industry designation tends to follow more closely the international standards for definition of industry.

An important limitation of an establishment surveys is they usually do not provide detail on the characteristics of the workers beyond their occupation, e.g., they give no information on the age or education of their employees.

Another problem, which has not to my knowledge received a great deal of attention, is that the distribution of working population according to industry estimated from household surveys often differs very significantly from its distribution as estimated from establishment surveys. For example, the

proportion working in manufacturing estimated from household surveys may be 50 percent smaller than that obtained from household surveys.

2. Wages, compensation and benefits

Establishment surveys sometime provide information on wages. Occasionally they are broken down by occupation, though usually only in broad categories such as managerial, operatives and unskilled. Often a given industry has developed very idiosyncratic occupation definitions that are hard to translate into the standard categories.

There is, in general, very little information about total compensation, that is including both wages and bonuses or detail on benefits such as pensions and health benefits. This is true even in the developed countries where it is difficult to get time series on the breakdown of compensation between money wages and nonmonetary benefits. Some of the establishment surveys do provide information about the characteristics of the firms within the industries so that it is possible to get a breakdown of employment by size of the firm. Establishment surveys do provide information on revenues and expenditures but often these are not provided in the same data source as the information on the employment characteristics, e.g., rarely does information about the capital structure of firms also come with detailed information on the characteristics of the employed labor force. In general a problem with establishment data is that governments almost never make available the information at the micro level that would allow researchers to carry out multivariate analysis of the determinants of employment. Here the concern with providing confidentiality to individual firms is a strong and serious limitation on making available micro data.

A thorough review of the extent and uses of establishment surveys would be a very useful exercise for most governments. Making an effort to examine the way the data are collected, the categories of employment, and earnings, and firm characteristics are defined and the rationale for all these procedures will uncover a lot of irrationality in the structure. It should be possible to rationalize and fill holes in the structure so a more complete picture of labor markets could be obtained. It would heighten the usefulness of the existing data collections by making it possible to obtain more coherent pictures of the total labor market situation, at least within urban areas.

A limitation of most establishment surveys is that there is a size cutoff for firms, anywhere from 10 to 100 employees being the lower limit. This means that establishment surveys in general will miss what has been called the "informal sector" - employment where many of the employers are of smaller size and, even when they aren't of smaller size, are seeking to evade various types of governmental regulations and therefore will never appear in the sampling frame of the establishment surveys.

is my belief that it would be possible for government statistic offices to merge household surveys with

establishment surveys. Since in general in their regular data collection they do ask questions about the identity of the firm where the household member is an employee, it would be possible to make a link from the household survey to the employer survey, for which they already have the identity of the employers. There are only a few such studies linking households and establishments even in the developed countries, but this linkage would greatly enhance our understanding of the operations of labor markets. It could be achieved within the national department of statistics at relatively little cost using existing data sources, if only a few steps were taken to establish those links.

C. Migration studies

As noted above the issue of rural to urban migration has a long history of interest of development of economics and in recent years people have been interested in the extent of reverse migration from urban areas to rural areas, particularly in the context of stabilization and structural adjustment. In addition there has been some interest in rural to rural migration as an important question in labor markets analyses. Most countries are concerned with issues of regional balance of population and economic activity and here again internal migration is a question of some concern.

It is possible to get some pictures of internal migration within a country from the census or from other household surveys when questions are asked about current and previous residences and length of time in various residencies. Using these types of data for migration studies has serious limitations. Where there are regular labor force surveys, it is not difficult to periodically add short modules dealing with migration questions to the labor force survey and obtain a lot of better migration information. The problem is, however, that the sample of migrants is likely to be a relatively small proportion of the total sample.

Specialized migration data collections yield a great deal more about migration processes. In the 1970s, the International Labour Office developed a protocol for doing inexpensive and quick migration studies.

We have stressed above considerable importance to the Near Eastern countries of international migration. These movements prove to be relatively difficult to study and get accurate information about. The immigration services do collect some regular data on inflows and outflows of people across the boundaries, but these data are often not maintained in a way that lends itself easily to research studies. It should be possible to get some fix on international migration from regular household studies, but to our knowledge, questions about international migrations are not often asked in such household studies. As already noted, remittance flows are a very important part of the issue of international migration. While there are some data gathered on remittance flows that go through official channels, it is generally

believed that unofficial remittance flows are equal or bigger in magnitude than the official ones. Thus it would seem important to try to get more systematic information from household surveys about the amount of remittance flows. Again, it would be possible to add special modules to a regular household survey in order to capture some of this information more systematically.

D. Special purpose studies of the informal sector

In the last two decades there has been a tremendous increase in interest in the "informal sector". The very nature of that sector, as variously defined, means that much of its activities are unlikely to appear in regular data collection efforts, certainly in not the establishment surveys, and to a lesser extent, in the household surveys. Thus most of the studies that have been done recently on the informal sector have been special purpose studies, drawing their samples in a variety of ways to try to capture the economic activity in the sector. Some studies have been built out of the regular household employment surveys or the household expenditure surveys, looking at the characteristics of the individuals in order to determine whether they could be said to fall into the informal sector. In some cases elements of establishment surveys have been defined as falling in the informal sector by looking at particular characteristics of the firms surveyed. In most cases, however, special samples are created in order to study a given population that is believed to be part of the informal sector. (I need to look at this a bit more carefully to make sure that I really understand the various ways in which samples have been drawn in such studies.)

E. Education and training studies

An important aspect of the operation of labor markets is differences in skills, indeed we often refer, for example, to "the market for engineers" as though it were clearly distinct from "the market for day laborers". These differential qualifications of members of the labor force are most often associated with the extent of formal education. Household surveys provide usually information on the extent of formal education in the population.

In addition, studies investigating the relationship between the schooling system and the labor market, often reach back to basic school systems data to look at the patterns of enrollment--according to levels of education, according to types of schools, according to the geographical distribution of schools. Increasingly information from the school system data is provided regarding differential rates of progression and graduation of different subgroups of the population, males and females, differences according to race or ethnic group. In addition, more sophisticated studies in recent years, require information from the school system regarding drop out rates, attendance rates, and in a few cases where there are regular testing programs, test score information.

With respect to the interrelationship of education systems and the labor market, a major shortcoming of studies has been that the education authorities rarely obtain information about what happens to their graduates and dropouts after they leave the institution. In recent years, researchers have mounted a series of what are called "tracer studies". These studies follow the graduates or dropouts of particular institutions and determine their status in the labor market. Tracer studies can either be done retrospectively, by taking a sample of individuals already working and obtaining information about their schooling backgrounds and their subsequent employment history, or they can be done the other way around by starting from the educational institution, and following graduates as they move into the labor force. Tracer studies are an important method of gaining a picture of the dynamics of the labor force. Issues of unemployment, secondary school leavers, the appropriateness of technical and vocational education, the roots of entry into various types of careers are greatly facilitated by such studies. Information from such studies should be fed back to educational authorities so that they can make better decisions regarding the structure of the system and content of their curricular and better allocate the resources in the system. Retrospective tracer studies can often be carried out quite quickly and cheaply.

Special evaluation studies of training and employment programs are another type of study that has been undertaken in many countries. Much like tracer studies, with program evaluations attempts are made to evaluate the impact of the training or employment program by following the people who had been involved in those programs and seeing their subsequent labor market experience. In developed countries the procedures for doing such evaluation studies have become increasingly sophisticated and have provided much better information about the effectiveness of alternative training and employment programs. Of particular importance is the development of a comparison group which can be used to tell what would have happened to the participants had they not entered the program.

F. Studies of labor market dynamics

1. While regular employment surveys pick up information about the current employment status of individuals and the extent of employment in firms, if we really want to understand the dynamics of the labor market as stressed above, it's important to understand disequilibrium situation and situations of movement of labor from one firm to another. This calls for data not only on current employment but also on the existence of vacancies, as vacancies are an indication of excess demand for labor at the going wage rates. Also information about hiring and firing gives a picture of the process of labor turnover in firms and markets. Establishment surveys sometimes give information about hiring and firing, so that labor force turnover can be estimated. Household surveys are sometimes used to estimate the extent of labor force turnover by obtaining employment histories of workers. In a few cases vacancies data have

been gathered from establishments.

A completely unique study in this regard the Labor Force Turnover Study of the Malaysian Ministry of Labor. This is made up of a panel of firms who periodically report on the vacancies, hires, and promotions. This type of data gives a unique opportunity to measure the extent of the labor market shortages and surpluses and how the market for different occupations evolves over time. Increasingly labor economists have looked at the characteristics of firms in terms of labor force turnover, job security, the costs of hiring and firing. Obtaining better data on such events in a consistent time series way would give a much better picture of how labor markets operate and the extent to which in particular situations, labor markets may be said to be malfunctioning. There are clear differences among countries and among industries and even among firms within a given industry in the extent to which they try to maintain the same employees or the extent to which they keep labor force costs down by turning over employees over time. The efficiency wage theories which were talked about above focus a great deal of attention on the questions of a firm's labor force turnover, the costs of hiring and firing, the costs of maintaining vacancies.

2. Panel studies of individuals

In the last two decades in the developed countries more longitudinal studies of individuals and families have been carried out. A "panel" of individuals is created at the beginning of the time period and those individuals are reinterviewed periodically over a number of years. The most famous of such longitudinal studies in the U.S. is the Panel Study on Income dynamics which has been following a group of families in the U.S., drawn as a representative sample of the population, ever since the end of the 1960s.

Panel studies provide a very rich way of understanding movements into and out of labor markets, movements across occupations and industries, differences in the work force experience of different types of individuals, and how they interrelate with their location and their family structure.

G. Uses of Records Data

A very neglected source of information about labor market processes is data that are regularly collected that are part of the records necessary for administering the particular types of programs.

1. Social Security

One of the most broadly available possible sources of such data is the information collected for social security systems. Usually information collected about the earnings experience of particular individuals, and those data are maintained in the archives of the social security program in order to determine the benefits for which those individuals will be eligible for at retirement (or in some cases at

disablement). These social security data are typically reported by the firm in which the individual is employed. Initially at the time of obtaining a social security number, the individual usually provides some data about their individual characteristics. Since social security data identify the firm from which the data are reported, and the individual, these data are potential source of information about the employment and earnings of the individuals. In the developed countries social security information have been increasingly used for a variety of purposes—in studying employment experiences, sometimes by merging social security data with data on the individuals from a survey.

2. Unemployment insurance data

In those countries where there are unemployment insurance systems, unemployment insurance data are usually reported by the individual firms in a fashion similar to social security data and they too can be an important source of information on labor market experiences. In recent years in the U.S. unemployment insurance data have been widely used in order to evaluate the impact of various types of training and employment programs. Confidentiality of the individual is maintained by aggregating data into small groups but these data can still provide a very important source of the earnings experience of individuals, allowing them to be followed longitudinally as well as to be assessed in a cross section at any given point in time.

3. Schools

As already mentioned, school systems gather records data which can and have been used variously for understanding the development of skills within the population. In a few cases in the U.S. school data has been linked with follow up individual surveys to draw relationships between the schooling background of individuals and their experience in the labor market.

4. Criminal justice data

In some countries data on arrests, convictions and incarcerations are regularly gathered on an individual basis and maintained in archives, in order to have available a source of the criminal history of the individual for subsequent purposes of assessing penalties and so forth. These criminal justice data have in a few cases been used in order to assess the impact of the particular employment and training programs on the arrest rates and incarceration rates of particular individuals. And in some cases, the impact of the programs on the criminal justice system has played a significant part in determining the benefits and relationship to the cost of such programs.

5. Land use records

In many countries land reform is a major issue in the rural areas. In a few studies systematic records have been put together to actually get the patterns of land tenure and use and these

can be important for understanding employment in rural areas. They have also been very important in studies of agricultural production and employment.

6. Health utilization data

In recent years in developed countries where there is a wide spread government health system, records are regularly kept about the utilization of health services, partly for the purpose of reimbursement where there is a reimbursement system, partly as a means of maintaining health records. Health utilization data can also be utilized in the assessment of the impact of various types of programs, the effects of employment related experience on health status.

7. Public housing

Public housing also often maintains detailed records about individuals and their incomes when eligibility for public housing is a function of income and this provides another potential source of data which could be used.

8. Professional societies

It has been possible in some cases to obtain records from professional societies about the status of their members, for example engineers, architects, accountants, medical personnel. These data can be very useful for special studies of the highly skilled.

H. Experiments and demonstrations as means of policy evaluation

In the U.S. in the last two decades there has been an increasing emphasis on attempts to evaluate the impact of various sorts of social policies by mounting demonstrations in which these policies are implemented and then evaluating their effects. The most rigorous means of such evaluations are what have been called "social experiments". The important aspect of social experiments which differentiate them from demonstrations is that the impact is measured by comparing a group of people who participate in the program or receive the benefits of the program to a group of similar individuals who do not participate in the program, usually called a control group. The control group is created random assignment of individuals to be participants in the program or to be in the control group. Both groups are followed over time to determine what their experiences are and the differences in the experiences can be attributed to the effect of the program. The advantage of random assignment is that it avoids any inequality in characteristics between those that are participating in the program and the control group, in this way the control group determines what would have happened to the participants had they not been in the program.

The first major social experiments were the Negative Income Tax experiment in the late 1960s and early 1970s in the U.S. However this method has been applied broadly to employment and training

programs particularly since 1975.

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