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Stalled Youth Transitions in the Middle East

A Framework for Policy Reform

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THE MIDDLE EAST YOUTH INITIATIVE
WORKING PAPER



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STALLED YOUTH TRANSITIONS IN THE MIDDLE EAST

While transition to adulthood is an inherently difficult period for youth everywhere, Middle Eastern youth face greater obstacles than their peers in Latin America or East Asia. In the last few years, in spite of large inflows of oil revenue and renewed economic growth, youth challenges have continued to persist.

EXECUTIVE SUMMARY

Young people in the Middle East (15-29 years old) constitute about one-third of the region's population, and growth rates for this age group are the second highest after sub-Saharan Africa. Today, as the Middle East experiences a demographic boom along with an oil boom, the region faces a historic opportunity to capitalize on these twin dividends for lasting economic development. Thus, tapping the full potential of youth is one of the most critical economic development challenges facing the Middle East in the twenty-first century.

While transition to adulthood is an inherently difficult period for youth everywhere, Middle Eastern youth face greater obstacles than their peers in Latin America or East Asia. Education generally is expected to ease the transition to employment, but fails to do so in the Middle East. Youth unemployment rates in the Middle East are the highest among developing regions and the wait for a first job is measured in years rather than months. A large majority live with their parents well into their twenties

and delay marriage longer compared with youth in other regions despite greater social taboos on relationships outside marriage and lower participation of women in the labor force.

In the last few years, in spite of large inflows of oil revenue and renewed economic growth, youth challenges have continued to persist. This is because the root cause of youth exclusion lies in the institutions that mediate transitions from school to work and family formation. Youth transitions are outcomes of several interconnected markets such as education, labor, credit, housing, and marriage. The difficulty of these transitions is a consequence of distortions and rigidities in the institutions and rules governing individual behavior in these markets. These institutions provide the signals that tell young people what skills to learn, tell firms whom to hire and how much to pay, tell credit agencies to whom to lend, and tell families how to evaluate the potential of a young person as a future spouse and parent.

Stalled Transitions: The Impact of Demography, Oil and Institutions

Youth transitions in the Middle East have been influenced by three factors distinct to the region. First, there are stronger supply-side pressures on the labor market caused by previously high fertility rates, an unusually pronounced “youth bulge,” and increased female labor participation. These demographic pressures have strained the capability of Middle Eastern countries in providing the large cohorts of youth with quality education and jobs. But demography is not the cause of youth exclusion; it only exacerbates its symptoms.

Second, oil rents raise reservation wages, reducing incentives among young workers to take private sector or informal jobs even if these jobs enhance their skills. Oil rents raise household incomes through direct transfers and subsidies and, as non-labor income, can reduce the supply of labor among family members. This is illustrated by the presence of high rates of youth unemployment in booming economies such as Saudi Arabia, Qatar, and the United Arab Emirates that have high levels of imported foreign labor.

Third, economic institutions in Middle Eastern countries are less suited for accommodating these demographic pressures than those in other regions. Middle Eastern economies are characterized by a high share of public sector in total employment, a greater degree of job protection in the formal sector, and a centralized and highly subsidized system of higher education. Today in a competitive global economy these institutions, which were once designed with strong social justice objectives, provide the wrong incentives and hinder economic development.

In addition, social institutions in the Middle East create unique conditions that affect youth inclusion. Separation of men and women in the public space, in some countries enforced by law, affects female education, labor force participation, and marriage. Gender norms have played a role in discouraging female participation in the labor market and labor market segmentation along gender lines. Cultural norms also affect youth transitions in other ways, especially the transition to marriage and family formation. In Middle Eastern societies, the institution

of marriage, which is a rite of passage to adulthood, is under stress because of the high costs of marriage. The delay in marriage poses new social costs since social restrictions bar sexual relationships outside of marriage.

Strong demographic pressures, oil income, rigid institutions, and social norms have paved the way for *waitthood*: a long phase which refers to the bewildering time that a large proportion of Middle Eastern youth spend waiting for a full state of adulthood. “Waitthood” conveys the multifaceted reality of the transition experience. Successful transitions require young people to gain the right skills while in school, engage in a purposeful search for a job or career, avoid risky behavior and, in good time, start an independent family. Because outcomes in one sphere spill over into another, failure in one or more of these transitions may cause multiple failures and result in youth exclusion.

Undoing Waitthood: The Imperative of Institutions and Incentives

The institutions of relevance to youth experience are the rules and regulations that govern the education system and the markets for labor, credit, and housing, plus non-market institutions such as social norms regarding marriage. The adverse impact of distorted signals and incentives is best illustrated by looking at the problem of skills mismatches.

Despite poor labor market outcomes for educated youth, Middle Eastern parents continue to invest in the education of their children based on the signals they receive from the labor market. This is because parents and students alike perceive “good” jobs as requiring a university degree. Access to universities, however, is highly dependent on passing national tests which are designed primarily to measure the acquisition of facts and knowledge through rote memorization rather than critical and independent thinking. Thus, families across the Middle East spend billions of dollars on private tutors and students end up spending energy on developing skills that are not in demand by private sector employers.

As these youth enter the labor market, they have to be retrained to acquire a broad set of skills. Governments invest resources in curriculum reform and expanded technical and vocational education (TVE)

programs while parents and students, responding to signals that emphasize the importance of university degrees, pursue a narrow set of skills. More able students stay away from TVE tracks in high schools because those who enroll in them are labeled as less qualified because they could not continue on the academic track toward a university education. Public policy would be more effective if it first tried to align the incentives of parents with those of the government, educators, and private sector employers in order to best use public and private resources spent on education. If the incentives to learn came from private employers willing to hire, reward, and provide decent employment for skilled individuals instead of signals sent by public employers interested in hiring individuals with degrees and diplomas, priorities likely would shift to global skill acquisition.

A Policy Framework for Youth Transitions: Reforming Institutions and Incentives

This framework has specific implications for policy reform designed to improve the incentive structures that youth face. The following three sections describe some main principles that should guide policy: what not to do, what to do, and how to do it.

What Not to Do

The first goal of policy should be to do no harm. At a time when policymakers are rushing to solve urgent youth problems, quick fix solutions can do harm to the long-term goals of improving incentives. Subsidies to help youth get started in their careers and form families are well intended and do provide relief, but when they give preference to high school or university graduates or aim exclusively at these groups, they reinforce the distorted incentives that have led to the difficult situation of Middle Eastern youth in the first place. While employing skilled workers may be needed urgently, basing eligibility for such programs on degrees and diplomas has the unintended effect of bolstering existing distorted incentives for credentials and worsening the mismatch of skills for future job market entrants.

What to Do

The main objective of policy should be to build a healthy microeconomic foundation for youth transitions, one that offers incentives for skill formation

and productive job search. Therefore, increasing the role of the private sector and market forces in human capital formation should be the main thrust of policy. In this regard several broad reform initiatives can be identified.

University Admission Policies

The lure of university education in most Middle Eastern countries suggests using university admission policies to change learning incentives in grades K-12. How universities select students influences how and what students learn at lower levels of education. As an example, good writing skills are a benefit to employers who depend on workers with good communications skills. Where university admissions are based on multiple-choice testing or limited critical thinking, which is nearly universal in the Middle East, students naturally under-invest in writing skills. Introducing a writing module in national exams would go a long way toward aligning their incentives with market rewards and thereby help diminish the mismatch of skills.

Employers also benefit from soft skills, sometimes called life skills, such as teamwork, critical thinking, leadership capability, and problem-solving. University admissions policies that place a high value on such soft skills can provide students and parents with the incentives to acquire these skills. Universities can give weight to past work experience and volunteerism which promote life skills at younger ages.

Public Sector

Today, public sector employers in the region generally hire smaller proportions of high school and university graduates. But because government jobs are highly sought, government employment practices still have a disproportionate effect on skill formation for children and youth of all ages. Deep changes in the civil service code are not always politically practical and take time to implement. So two intermediate steps could be taken to change the signals that public sectors transmit to parents and schools. The first step is for governments to send a “soft signal” by simply announcing that the public sector no longer will be the main employer of educated youth and that employment policies are being reconsidered. This could be combined with a sec-

The main objective of policy should be to build a healthy microeconomic foundation for youth transitions, one that offers incentives for skill formation and productive job search. Therefore, increasing the role of the private sector and market forces in human capital formation should be the main thrust of policy.

ond and slightly stronger signal, which is to introduce tests and interviews that evaluate personal traits beyond what is examined in schools and universities. This would begin to delink government hiring and university degrees and thus begin to reduce the negative grip of government employment on skill formation.

Private Formal Sector Hiring and Dismissal Practices

The formal private sector plays an increasingly important role in hiring skilled workers. Any measures that enable private employers to signal what skills they deem productive and will reward accordingly will benefit skill formation. Yet in most countries of the region, larger private employers often reinforce public sector signals for skill formation because they must adhere to labor laws that regulate their hiring, compensation, and firing practices. Wage scales and the high cost of layoffs prevent private firms from sending the right signals about rewards for productivity and a wider skill set. Politically, labor law reforms are difficult to implement. However, some progress has occurred in a few countries in the region; Egypt has relaxed its labor laws and, in Iran, smaller firms have been exempted from such laws. As with the public sector, intermediate steps such as sending soft signals and requiring evidence of a wider range of skills at the time of hiring would enable private employers to have a greater voice in skill formation.

The Small and Informal Sector

High priority should be given to policies that raise the value of informal, skill-enhancing jobs that can provide valuable work experience for youth. The goal is to enable informal employers to provide credible information about the work experience and general skills of their employees. Such information differs from a certificate in that it contains specific and individualized information about each worker.

In advanced economies, firm reputation and better information flow enable young workers to “bank” on short-term experiences through resumes and recommendation letters that record the nature of the job experience and the quality of skills the worker brought to the job. Resumes and recommendation letters are valuable to workers and employers if they are credible and the information in them can be verified. In flexible labor markets, where employers can terminate jobs at relatively low cost, such informal documents become useful tools for conveying information about worker skills. But informal information is less valuable in more rigid markets where employers incur high layoff costs. Employers then would insist on verifiable certificates.

If small firms in the region were granted more flexibility in hiring and firing, firms may be more willing to take risks with less verifiable information and such informal documents would become useful tools for conveying information about worker skills.

In such a situation, a program in which the government or a designated nongovernmental organization can collect recommendation letters for young workers and randomly verify that information would add credibility to signals provided by small firms. Firms and apprentices could be subject to random checks and penalized (by firms losing a wage subsidy and workers losing credibility) for providing false information.

How to Do It

Most of the recommended policies have been on the reform agenda for some time. The fact that they have not been fully implemented points to political constraints, especially in the area of labor market reform. Two factors are important to consider in assessing the political feasibility of reform: youth and parents as political allies and commitment to social protection.

Implementing comprehensive reforms in education and the labor market undoubtedly will arouse a

wide array of opposing forces. Teachers' unions may oppose greater accountability and workers' unions will oppose relaxing job protection rules. Fears of globalization are in large part related to increased job insecurity. Fortunately, good youth policy and reforms can create their own constituency—parents and students. As the returns to formal schooling decline, the majority of parents have a large stake in improving the institutional structure that governs skill formation for their children.

Commitment to social protection and social insurance can also open greater political space for reform. This reform strategy requires renegotiation of the social contract in the Middle East. The heart of this new strategy involves replacing old job protection rules and regulations with social protection and social insurance policies. This can allay general fears and enlist the support of youth in waitness and their parents who seek a brighter future for their children.

I. INTRODUCTION

Young people in the Middle East (15-29 years old) constitute about one-third of the region's population, and growth rates for this age group are the second highest after sub-Saharan Africa. Today, the entire Middle East region is experiencing a demographic boom along with an oil boom. The concurrence of sound economic growth and a large youthful working population create the social and political impetus for fundamental institutional change which can enable the region to capitalize on these twin dividends for lasting economic development. Thus, tapping the full potential of young people is one of the most critical economic development challenges facing the Middle East in the twenty-first century.

In recent years, a number of policy frameworks have emerged to address youth transitions from education to employment and to family formation (Lloyd 2005 and World Bank 2007b).¹ These frameworks recognize that the critical transitions experienced by youth within a relatively short timeframe in turn have lifelong impacts on them, their families, and society at large (Silver 2007, Hammer 2003).

Building on these existing frameworks, this paper focuses on the role of markets and institutions in mediating youth transitions, namely education systems, labor and housing credit markets, and social norms governing marriage and family formation. Difficult youth transitions and social exclusion are interpreted as a consequence of failures in these market and non-market institutions.² Economic and social policy should be designed to improve the institutional environment and create incentives that will allow youth to better manage their transitions to adulthood.

This approach is particularly useful for addressing youth exclusion in the Middle East because of the rigidity of institutions in the region, which is in part inherited from history and in part reinforced by policy today. Stronger demographic pressures exacerbate the institutional failures in the Middle East because rigid education systems and labor markets have proven less capable of mediating young people's transitions to adulthood successfully. As a result, average youth unemployment rates in the region are 25 percent compared to the world average

of 14.4 percent (World Bank 2007b). Worse, the average duration of unemployment spells for first-time job seekers with university or vocational education is high, with the wait for first jobs measured in years rather than months.³ Social norms regarding marriage also have been slow to adapt. A large majority of youth live with their parents well into their twenties and delay marriage longer compared with youth in other regions despite greater social taboos on relationships outside marriage and lower participation of women in the labor force. Education, which in other regions is a way to ease transition to adulthood, fails to do the same in the Middle East.

This paper concentrates on youth aged 15-29 with secondary and higher education. This focus may be less relevant for poorer countries in the region such as Djibouti, Sudan, and Yemen, where poverty and access to basic education are still the most pressing development challenges. However, because of prior investments in health and education, the majority of youth in the region now have more than a basic education. In many countries in the region, nearly three-quarters of youth are enrolled in secondary education (see Table 1). As such, challenges in raising the quality and productivity of education have taken priority over raising school enrollment. These challenges only will grow in the future as poverty declines and youth face more advanced problems of acquisition of global skills, access to credit for housing, and barriers to family formation. Thus, by focusing on the problems of mid-educated youth, this paper addresses the needs of the region's future middle class and deals with the broader development challenges that the entire region must face in the coming decades.

This paper recognizes that youth is not a homogeneous social category; gender and family income affect youth transitions in significant ways. Throughout the region, gender differences are significant in education, employment, and family formation. Women have caught up in school enrollment and attainment, and in several countries they have overtaken men in higher education. But they face much higher rates of unemployment and lower pay (Dhillon and Yousef, 2007). Family income differences also matter. Youth from well-off families experience

transition to adulthood differently from those from middle and low income backgrounds. They can seek higher education abroad, use family resources for self-employment, and are not constrained financially in family formation.

Furthermore, when discussing the role of institutions on youth transitions, this paper takes into consideration the fair amount of institutional heterogeneity within the Middle East. One obvious distinction is access to hydrocarbon rents. The oil and gas exporting countries of the region, except for Iran, employ large numbers of foreign workers in the service sector, while their own nationals pre-

fer government jobs. Another distinction is the extent of integration in the world economy. Some countries, notably Morocco, Jordan, and Tunisia, with significant incomes from tourism and export of manufactured items, are differently integrated into global markets than the oil exporting countries.

This paper is not an exhaustive survey of youth in the Middle East nor is it a blueprint for action. It draws on the limited available information and data on education, employment, housing, and marriage trends in the region. The discussion offers an approach and specific direction for future policy on youth in the Middle East.

II. STALLED TRANSITIONS: THE IMPACT OF DEMOGRAPHY, OIL, AND INSTITUTIONS

Transition to adulthood is an inherently difficult period for youth, especially for unusually large cohorts such as those in the Middle East.⁴ Modernization and globalization have transformed traditional Middle Eastern societies, but this has not necessarily made youth transitions easier.⁵

Young people in the region face new challenges that did not exist a generation ago. Transitions in traditional and mostly rural Middle Eastern societies were mediated by the family and the community, whose roles were to help young people follow in their parents' footsteps by setting them up with work, farms, professions, and new families of their own.⁶ With economic development, markets and state institutions have increased their influence on the lives of the people, especially youth. But market and state institutions have faltered in their basic function of providing youth with the requisite means for transition to adulthood and have failed to adapt to changing global conditions. During the past three decades, economic and social changes have advanced quickly, in part because of the inflow of oil revenues and remittances, while productivity and human capital accumulation have lagged behind.

Youth transitions in the Middle East have been influenced by three factors distinct to the region. First, there are stronger supply-side pressures on the labor market caused by previously high fertility rates, an unusually pronounced "youth bulge," and increased female labor participation (though from very low levels).⁷ In the next two decades, the region is expected to add another 150 million people, so job creation in most Middle Eastern countries will have to exceed 3 percent a year in order to absorb these young labor market entrants (Noland and Pack 2007).

These demographic pressures have strained the capability of Middle Eastern countries in providing their large cohorts of youth with quality education and jobs. In countries where the bulge is peaking and large numbers of youth are of marriageable age, new demographic related demands are emerging such as access to affordable housing. But demography is not the main cause of youth exclusion; a youth bulge only exacerbates its symptoms.

Second, oil rents raise reservation wages, reducing incentives among young workers to take private sector or informal jobs even if these jobs enhance their skills. Oil rents raise household incomes through direct transfers and subsidies and, as non-labor income, can reduce the supply of labor among family members. In addition, oil rent can inflate public sector wages and expand the wait for government jobs. Karshenas (2001) argues that oil income is a factor in the low labor supply of women in the Middle East and, in the case of Egypt, Blomquist et al (2008) show that high reservation wages matter for labor supply of youth. The effect of oil income (which accrues to the family) on the labor supply of young workers is enhanced by social norms which encourage supporting children well into their twenties over having them accept low status jobs. Together, oil rents and social norms can prolong job searches and reduce incentives to become self-reliant early in life. This is illustrated by the presence of the high rate of youth unemployment in booming economies such as Saudi Arabia, Qatar, and the United Arab Emirates that have high levels of imported foreign labor.

Third, economic institutions in Middle Eastern countries are less suited for accommodating these demographic pressures than countries in other regions. Middle Eastern economies are characterized by a high share of public sector in total employment,⁸ a greater degree of job protection in the formal sector, and a centralized and highly subsidized system of higher education (World Bank 2004a). These institutions, when first established, were designed with strong social justice objectives and had positive incentive effects. For example, public sector job guarantees for high school and university graduates in Egypt and Morocco in the 1960s encouraged youth, especially those from modest backgrounds, to stay in school longer (World Bank 2004a). Job protection regulations created incentives for risk-averse individuals in self-employment to pursue careers in the formal sector. Now, four decades later, in a much more competitive global economy and with huge numbers of unemployed graduates seeking salaried jobs, the same institutions provide the wrong incentives and hinder economic development (Salehi-Isfahani 2006).

In addition, social and cultural norms in the Middle East create unique conditions that affect youth inclusion. Separation of men and women in the public space, in some countries enforced by law (Iran and Saudi Arabia), affects female education, labor force participation, and marriage, though not always negatively because it can expand women's access to school and work (Assaad 2002, Mehran 2003, and Salehi-Isfahani 2006). Gender norms have played a role in discouraging female participation in the labor market and labor market segmentation along gender lines (Karshenas 2001 and Assaad and Barsoum 2007). Cultural norms also affect youth transitions in other ways, especially the transition to marriage and family formation. In Middle Eastern societies, the institution of marriage, which is a rite of passage to adulthood, is under stress because of the high costs of marriage. The delay in marriage poses new social costs since social restrictions bar sexual relationships outside of marriage (Singerman 2007).

Strong demographic pressures, oil income and rigid institutions have paved the way for *waithood*: a long phase which refers to the bewildering time that a large proportion of Middle Eastern youth spend waiting for a full state of adulthood. Dhillon and Yousef (2007) and Singerman (2007) use the term "waithood" to convey the multifaceted reality of the transition experience, which goes beyond securing a job and extends to other aspects of life, including access to learning opportunities, household formation, and civic participation. Successful transitions require young people to gain the right skills while in school, engage in a purposeful search for a job or career, avoid risky behavior and, in good time, start an independent family. Because outcomes in one sphere spill over into another, failure in one or more

of these transitions may cause multiple failures and result in youth exclusion. The difficulties youth face in resolving the uncertainty attendant to each inter-related sphere of life can result in a debilitating state of helplessness.

Young men and women experience waithood in very different ways. Waithood for men entails facing the pressures of finding a steady job, covering the costs of marriage and family formation, and securing credit to purchase a home. Women have fewer options for resolving their waithood experience. On the one hand, the period of waithood can be considered to benefit women through increased levels of education and the higher age of marriage. Women have caught up in school enrollment and attainment, and in several countries they have overtaken men in higher education (Dhillon and Yousef 2007). On the other hand, these educational gains have not resulted in decent employment opportunities. Economic security and social norms make marriage the centerpiece of women's transition to adulthood, which is conditional upon the resolution of men's waithood.

The challenges of waithood for women are exacerbated in part by prevalent social and cultural gender norms and restrictions on their movement in public. Consequently, they are less able to take an active role in negotiating their transition to adulthood. In some countries, such as Saudi Arabia and Iran, the segregation of public space is regulated methodically and legally. In other countries, public space is defined and regulated by tradition (*waf*) and related to the size and remoteness of towns and villages.⁹ Anecdotal evidence has shown that a large number of women in the Middle East pursue a university education because of limitations in other spheres of public space.

III. UNDOING WAITHOOD: THE IMPERATIVE OF INSTITUTIONS AND INCENTIVES

Youth outcomes in Middle Eastern countries are the results of decisions taken by millions of families. These decisions are linked to the structure of institutions and incentives that shape behavior at the micro level. The institutions of relevance to youth experience are the rules and regulations that govern the education system and the markets for labor, credit, and housing, plus non-market institutions such as social norms regarding marriage. These institutions provide the signals that tell young people what skills to learn, tell firms whom to hire and how much to pay, tell credit agencies and banks to whom to lend, and tell families how to evaluate the potential of a young person as future spouse and parent.

The markets for education, labor, credit, and marriage are interconnected, and the behavior of individuals in one area is affected by institutions in another. For example, in marriage the valuation of a groom's future earnings is, quite reasonably, related to the security of his job. Thus, the norms in the marriage market may create an important social and political imperative for stronger job protection. Reducing job protection when young men lack the alternative means for signaling their future prospects, such as a career path, could adversely affect their ability to marry. Consequently, the scope of policy in one sector goes beyond the sector itself and often beyond the markets that are normally associated with youth welfare.

The macroeconomic performance and investment climate of Middle Eastern countries is highly influential in shaping youth inclusion; trade policy in large part determines labor demand and the structure of jobs and skills. But without a sound microeconomic foundation—one in which institutions generate the right signals and incentives—the benefits of macroeconomic and trade reforms are limited. The limited influence of rising aggregate demand in solving youth problems is best illustrated by the persistence of youth unemployment in the oil exporting countries of the region, despite rising oil prices (Dyer and Yousef 2007). In non-oil producing countries, which have embarked on important structural reforms and today enjoy improvements in macroeconomic performance, many youth-related development deficits persist.

The remainder of this paper describes the micro foundations of youth exclusion as the set of institutions in education, employment, and family formation that affect family and youth behavior in the Middle East. Before going into detail, two brief examples encapsulate how distorted signals and incentives affect youth outcomes, which in these cases lead to poor skill formation.

Mismatch of Skills: Good Intentions, Bad Outcomes

Despite poor labor market outcomes for educated youth, Middle Eastern parents continue to invest in the education of their children based on the signals they receive from the labor market. This is because parents and students alike perceive “good” jobs as requiring a university degree. Access to universities, however, is highly dependent on passing national tests which are designed primarily to measure the acquisition of facts and knowledge through rote memorization rather than critical and independent thinking. Thus, families across the Middle East spend billions of dollars on test preparation courses and private tutors. Students end up spending time and energy developing skills that are not in demand by private sector employers, who increasingly are becoming the main engine of job growth in the region.

As these youth enter the labor market, they have to be retrained to acquire a broad set of skills. Governments invest resources in curriculum reform and expanded technical and vocational education (TVE) programs while parents and students, responding to signals that emphasize the importance of university degrees, pursue a narrow set of skills (Galal 2002, Elbadawy, et al. 2004, Salehi-Isfahani 2006, World Bank 2008). More able students stay away from TVE tracks in high schools because those who enroll in them are marked as “having failed already” because they could not continue on the academic track toward a university education (Heyneman and Gill 1997). Public policy would be more effective if it first tried to align the incentives of parents with those of the government, educators, and private sector employers in order to best use public and private resources spent on education. If the incentives to learn came from private employers willing to hire, reward, and provide secure employment for skilled and motivated individuals instead of signals

Strong demographic pressures, oil income and rigid institutions have paved the way for waithood: a long phase which refers to the bewildering time that a large proportion of Middle Eastern youth spend waiting for a full state of adulthood.

sent by public employers interested in hiring individuals with degrees and diplomas, priorities likely would shift to global skill acquisition.

Skills Formation through Volunteerism: A Missing Bridge between Education and Employment

Worldwide, there is a great deal of learning that goes on outside of schools, some of it in youth volunteer work, summer work, and the like. This is especially the case in the United States, where many youth engage in volunteer work while in high school, and even after college, because they consider such work as resume building and a source of experience and skills acquisition. These activities generate future income because they help young men and women gain admission into universities and to find better jobs. In contrast, even though Middle Eastern youth face greater unemployment and therefore a lower opportunity cost of time, they

show less interest in volunteering. A Gallup poll in 2006/2007 revealed that only 11 percent of Middle Eastern youth had volunteered any time to an organization in the past month (Gallup World Poll, 2007).¹⁰ This is because desirable jobs are rationed solely by test scores and credentials rather than volunteerism being considered a sign of productivity.

This contrast in behavior is as much a result of differences in the incentive structure that youth in the United States and Middle East face as differences in history and culture, which are usually the first to be blamed. Middle Eastern youth are discouraged from investing their time in voluntary work because neither universities, through their admission policies, nor employers in the public and private sectors sufficiently value voluntary work to make it worthwhile for youth to shift time away from leisure or study to volunteer work.

IV. EDUCATION

The Middle East boasts the world's fastest rising levels of schooling (World Bank 2008). Enrollment rates are high across the board for both boys and girls, and average years of schooling have increased several fold since the 1970s (see Table 1). In fact, women have overtaken men in average educational attainment in universities in some Middle Eastern countries (notably Jordan, Kuwait, Iran, Saudi Arabia, and Syria). These achievements are the result of high rewards for schooling and high levels of public spending on education, amounting to about 5 percent of GDP and 20 percent of government expenditures, which compare well with other developing countries (World Bank 2008). Private investment in education is also high, as evidenced by the booming private tutoring industry in the region.

The high level of resources and time committed by parents and students to education has contributed to the rapid increase in quantity, but not quality, of education. No region in the world has invested more in education with less to show for it. It is widely believed that productivity of education is low because Middle Eastern education systems produce graduates who lack the necessary skills for today's labor markets (Galal 2002, UNDP 2002, World Bank 2008). Low social returns to education in the Middle East are confirmed by empirical cross-country studies that reveal no impact of the increase in education on output (Fattah, Limam, and Makdisi, 2006, Pritchett 1999). Even in terms of academic achievement, Middle Eastern students do not perform as well as they should. Students from several Middle Eastern countries who partici-

Table 1: School Enrollment Ratios and Average Years of Schooling for Selected Middle Eastern Countries

Middle Eastern Country	Primary Enrollment	Secondary Enrollment	Tertiary Enrollment	Average years of schooling	
				1970	2000
Algeria	95	83	22	0.82	4.72
Bahrain	98	101	32	1.82	6.09
Egypt	94	88	35	1.32*	5.05
Iraq	89	45	16	0.76	4.34
Jordan	90	89	40	2.29	7.37
Kuwait	83	89	18	2.88	7.05
Libya		94	...	1.35*	2.87**
Lebanon	82	81	48	...	...
Morocco	88	52	12	...	...
Oman	74	89	25	...	...
Qatar	94	101	19	...	...
Saudi Arabia		...	29	...	...
Syria		70		1.67	5.74
Tunisia	96	85	30	0.91	4.20
UAE	88	90	...	2.88*	...
Yemen	75	46	9	...	...

Sources: Primary enrollment from UNESCO Institute for Statistics (2006); secondary and tertiary enrollment from World Bank World Development Indicators (2006); average years of schooling of the total population aged 25 and over from Barro and Lee (2000).

* Data from 1975; ** Data from 1985

pated in the Third International Mathematics and Science Studies (TIMSS) and the OECD Program for International Student Assessment (PISA) standard exams scored near the bottom of the group of participating countries (World Bank 2008).

Failing Education Transitions: The Impact of Institutional Set-ups

Improving the quality of education requires not only greater resources but changes in the institutions that guide the behavior of various stakeholders in education: parents, students, teachers, school administrators, and private employers. Four common features define the education system in Middle Eastern countries and are central to improving quality and skill matches: the dominant role of the public sector in the provision of education; a strong preference for public sector jobs; the heavy reliance on rote learning to prepare for tests that condition grade promotion and university admissions; and disproportional investment in tertiary education over primary.

First, a common feature of the region's education system is the importance of the public sector in providing schooling. With the exception of Lebanon, most students (and all students from poorer families) attend public schools and universities. In addition, governments have a monopoly in setting national quality standards for all schools. Competition between schools and accountability to parents and students are therefore very poor. The familiar effects of poor accountability on education outcomes in the region have been documented by a recent World Bank report (2008). Teachers and school administrators have lifetime jobs, and their compensation is disconnected from effort. As a result, teachers are not motivated and some spend even more time as private tutors of the same students they are assigned to teach in public schools. School administrators, in turn, have little incentive to monitor, reward, or punish lackadaisical teachers. These well-known incentive problems among teachers and school administrators affect the quality of student learning and should be the focus of any reform effort.

Second, the large role of the public sector in employment in the Middle East, especially for gradu-

ates, means that education systems continue to be geared toward public sector employment even though the public sector is a less significant employer of new labor market entrants than in the past. In Egypt, although the post-revolution public sector job guarantee for university graduates was rescinded in 1989, employment in the civil service sector and public enterprises has maintained popular appeal. Throughout the region, the lure of secure government jobs, often with better pay and benefits, still influences the types of skills parents and children invest in. As a result of public sector hiring and compensation practices, "good" jobs are perceived by parents and students alike as requiring a degree rather than investment in learning specific skills. At the same time, the private sector, which has expanded its role in providing jobs for youth, has a limited role in driving skill formation. Consequently, over 70 percent of higher education students in the region continue to follow the traditional pathway to civil service jobs by studying the humanities and social sciences. Fewer students pursue technical and scientific tracks that would have higher value in the private sector and would contribute more productively to the modern economy (Assaad and Barsoum 2007, UNDP 2005 and World Bank 2008).

Third, a strong testing culture in education has had a disproportionate effect on school curricula, teaching practices, and what parents urge their children to learn. The emphasis on testing reflects a desire for objective evaluation of and equal opportunity for students from all social backgrounds. In several countries such as in Iran, Jordan, Syria, and Turkey, entrance to universities depends on performance on a single national test—often a multiple-choice test.

As the destination of choice for nearly all students who go beyond the primary level, universities and their admission policies have led to a set of distorted incentives by which school curricula and students' studies are narrowly focused on test preparation rather than acquisition of a broad range of knowledge and skills. Thus, families across the Middle East spend billions of dollars on test preparation courses and private tutors for their children (Assaad and Elbadawy 2004, Tansel and Bircan 2004, World

Bank 2008). Even though less than one in five youth are enrolled in universities, the lure of a university education as a lottery drives parents and students to invest in skills and habits (rote memorization) that have been widely criticized as the reason for the mismatch of skills for Middle Eastern youth (UNDP 2002).

Finally, the demand for university education results in Middle Eastern countries spending disproportionately more on upper secondary and tertiary education at the expense of primary education (World Bank 2008). Among the non-oil producing countries, Tunisia and Morocco have the highest ratio of public expenditures on tertiary relative to secondary education (about 2.5 compared to 0.27 in Korea). The inefficient distribution of expenditures by level of education reveals the importance of incentives in educational outcomes. The incentive to acquire diplomas drives Middle Eastern governments to spend a greater proportion of their public resources on secondary and tertiary education than countries such as South Korea, where the education system is more productive.

Improving Quality and Reducing Skill Mismatch through Institutional Reform

A recent World Bank flagship report on education in the Middle East (World Bank 2008) makes a strong case for reform initiatives that address teacher and school incentives and raise public accountability, thereby shifting the focus of education policy in the region from inputs to incentives. Increased expenditures on inputs such as better facilities, smaller classes, and more qualified teachers are no doubt important for improving the quality of education. However, according to the report, such improvements cannot go very far without tackling the lack of incentives among teachers and school administrators. But, as noted earlier, distortions in incentives are not confined to the education system. Labor market institutions across the Middle East produce signals of rewards for skills and thus similarly distort the accumulation of human capital. These signals indicate high rewards for degrees and certifiable skills to secure public sector jobs and only weak signals for a range of hard-to-certify skills that are of greater value to private employers. Therefore, institutional reform must follow an in-

tegrated sequence of steps that affect the source of signals and incentives from various markets.

A good indication of incongruity in the incentive structure of the education system is the divergence between private and social returns to education in Middle Eastern countries. Parental investments in education are obviously responding to the incentives set in the labor market, namely that good jobs require a university degree. High private returns, especially for higher education, have been confirmed by econometric studies of returns to education (Assaad 1997, Dah and Hammami 2002, Huitfeldt and Kabbani 2006, Tansel 1994 and 2005). But the earnest pursuit of education on the part of parents and their children results in low social rates of return. This discrepancy between private and social returns would not exist if employers paid higher wages to the more educated in order to reward higher productivity. So the problem of over-investment in formal education is in large part caused by practices of employers in the public sector and the regulated private sectors that do not use merit and productivity as the basis of their compensation, hiring, and firing policies.

The importance of these incentives set by the labor market is also evident in how parents respond to weaknesses in public schools by hiring private tutors for their children. Private tutoring thrives in several countries, notably in Egypt, Jordan, and Iran, where parents are willing to invest large sums of money in order to help their children best prepare for the tests required for university enrollment.¹¹ As these youth enter the labor market, governments and development agencies rightly identify their narrow set of skills as a source of difficulty in their transition to work. To encourage youth to acquire a wider skill set, governments have invested in curriculum reform and expanded technical and vocational education (TVE) programs.

Although there is a high demand for quality education among parents and students in the region, improving public schools and offering a more balanced curriculum will not reduce reliance on private tutors so long as these incentives do not change. Further, school accountability, which was highlighted in the World Bank education report (World Bank

2008), is critical to the success of any education reform program, but it is not sufficient to alter current incentives and signals which shape parents' and students' educational decisions. Schools that are accountable to the concerns and wishes of parents are likely to teach the right skills so long as parents want the same for their children. In some Middle Eastern countries, private schools focus on a narrower set of skills than public schools because they are more, not less, accountable to parents (Salehi-Isfahani 2005). Therefore, public policy would be more effective if it first tried to align the incentives of parents with those of the government, educators, and private sector employers in order to best utilize public and private resources spent on education.

If formal schooling is unable to provide the necessary skills for youth, can the promotion of TVE fill the need? There are two types of experiences with TVE in the Middle East. At one extreme is Egypt, which tracks students early, sending about two-thirds of them to vocational schools starting as early as the ninth grade. At the other extreme is Iran, where the vast majority of students avoids vocational schools and prefers to stay in high school so as to be able to take the high stake national test. Interestingly, the outcomes do not seem to be that much different. In Egypt, TVE graduates suffer as much from skill mismatch and unemployment as their counterparts who take the high school track (Kamel 2006). In Iran, high school graduates who fail to move on to university suffer from the highest rates of unemployment of all groups; those who take the TVE track do not fare much better.

Across the region, rewards from TVE are too low to attract good students and the quality of training fails to keep up with employer needs (European Training Foundation 2005). The low rewards for vocational training are closely tied to the institu-

tions of formal education and the labor market. Perceived rewards to the academic tracks are higher, not so much because they teach more valuable skills but because they provide the option for entering a university. Consequently, only the least able and least motivated students opt for TVE. Testing on the basis of ability, which usually takes place around ninth grade, reinforces these perceptions. Employers know the resulting distribution of talent and offer low pay to TVE graduates, thus perpetuating the cycle. Laws that prevent employers from dismissing workers further discourage employers from taking risks in the face of these probabilities.

The dilemmas of TVE reform mirror those of the education sector in general. TVE programs cost more and usually are underfunded, but greater expenditures on better equipment and teacher training may not bear full results as long as students and employers continue to perceive TVE students as the least capable. TVE programs must be able to recruit students from the middle of the spectrum of ability if they are to have the greatest effect. Employers also must be willing to take greater risks with their graduates because *ex ante* signals of technical skills are more costly to generate and are deemed less reliable. Whereas students on academic tracks easily can signal their knowledge of subject matter by class ranks and test scores, TVE students have a more difficult time signaling their skills because often they are only tested on the theoretical part of their training.¹² Employer participation in training and evaluation of TVE graduates, as in Germany, can help increase the value of the signals vocational schools can generate (Axmann 2004). Without a proper evaluation of their skills, TVE students have little incentive to learn the trades well, and raising TVE quality would be very difficult.

V. EMPLOYMENT

Labor market outcomes are central to youth inclusion. Successful transitions from school to work and family formation depend critically on employment opportunities available to youth. These employment opportunities depend on a number of factors: the skills youth learn in school, their willingness to search for and accept employment, the rate of job creation, and the rate of turnover of existing jobs. These outcomes are determined by the institutional setup of the labor market. The root cause of long durations of unemployment, especially for educated youth, lies not in strong demographic pressures but in institutional rigidity.

Labor Market Institutions and Incentives for Skill Formation

Four common characteristics define the institutional environment of Middle Eastern labor markets that influence incentives for skill formation. These include: the large role of the public sector in employment, especially of educated youth; tight regulation of private employment; the large informal sector; and low participation of women and gender segregation.

The Large Role of the Public Sector in Employment

As shown in previous sections, public sectors in Middle Eastern countries employ a large number of people. The average size of the public sector wage bill as a percentage of the GDP in the region is about 8.26 percent, which is much higher than any other region of the world (See Table 2). More importantly, the public sector historically has been the largest employer of university educated workers (Salehi-Isfahani 2005, Kabbani and Kothari 2005, Assaad and Barsoum 2007), so its influence on incentives to learn far exceeds its weight in total employment.

Civil service employment codes not only guarantee jobs for life, they often determine employee compensation based on just one criterion—highest degree achieved. Herein lies the most important source of the incentive for degree-seeking behavior of Middle Eastern youth that has been noted in numerous studies (Assaad 1997). Even without the wage scale, public sector managers tend to rely on formal schooling more than private employers be-

cause, lacking the market signals that profits convey, it is more difficult for them to measure actual productivity.

Tight Regulation of Private Employment

Across the region, private employers account for two to three times as many employees as the public sector; yet they do not have the same degree of influence on youth incentives for education or expectations for employment as the public sector. The value and strength of signals sent by private employers is undermined by the high degree of regulation on formal private employment prevalent in many countries across the region.

Regulation of private employment in Middle Eastern countries has its origins in Arab countries in Arab socialism and in Iran in the Islamic Revolution. These movements have given rise to the perception of large private enterprises as being exploitative. In most countries, to protect workers from the vagaries of private employers, labor laws impose heavy penalty on discretionary layoff (World Bank 2004a, Yousef 2004, Said 2001, Agenor et al. 2007).¹³

Evidence of overall labor market rigidity, indicating the severity of the rules governing private and public employment, is available from international indices (see Table 2). The scores published by the Heritage Foundation for overall economic freedom and labor freedom and the World Bank's *Doing Business 2008* indicators show that Middle Eastern countries have higher ranks in rigidity compared to those in other world regions.¹⁴

Regulation of the formal sector limits the ability of private employers in signaling returns to the variety of skills they need. These are the private employers who can compete with the government in attracting educated youth and are therefore in the best position to influence skill formation. However, where private employment is heavily regulated, private employers behave like public employers and, because they have to offer job security in their hiring decisions, they give more weight to *ex ante* signals of productivity such as degrees. As a result, in many Middle Eastern countries, both the public and the formal private sector send strong signals in favor of

a university education, which discourages investing in less observable but highly productive skills (Salehi-Isfahani and Murphy 2004).

If private employers in the Middle East were free to pay employees according to productivity and lay off unproductive workers, they would generate signals of value for various skills. When they have to follow wage scales that set pay according to the level of formal schooling or face high costs of firing workers, they are unable to send signals that guide formation of skills for youth.

Formal sector rigidity is an important contributing factor for the long job waits for graduates across the region. Rigid markets lower turnover, which essentially prevent young workers from competing with existing workers for jobs and limit the number of

available jobs to only those created by economic growth. Low turnover thus limits opportunities of youth to obtain work experience in the formal sector and reduces incentives to improve their skills while waiting.

The Informal Sector

The informal sector in Middle Eastern countries is large and plays an important role in youth employment. Existing estimates of the share of informal sector workers in the total nonagricultural workforce range from 32 percent in Syria to 55 percent in Egypt (World Bank 2004a). Complicated business registration processes, taxes on employment, and other business regulations raise the fixed costs of starting a business. They thus have a disproportionately negative effect on smaller enterprises that

Table 2: Share of Government Wage and Salaries in GDP (average for 1992-2002) and Indices of Economic Freedom

	Percent of government wages in GDP	Difficulty of hiring index	Rigidity of hours index	Difficulty of firing index	Rigidity of employment index	Heritage Foundation Index of Labor Freedom
Algeria	7.10	44	60	40	48	52.3
Egypt	6.18	0	20	60	27	69.1
Iran	10.60	11	60	50	40	43.8
Jordan	14.36	11	20	60	30	64.8
Kuwait	14.74	0	40	0	13	82.1
Lebanon	8.17	44	0	30	25	71.2
Morocco	11.12	100	40	50	63	40.2
Saudi Arabia	--	0	40	0	13	80.6
Syria	--	22	40	50	37	47.1
Tunisia	10.52	28	40	80	49	55.3
UAE	3.85	0	60	0	20	76.2
Yemen	12.83	0	60	40	33	67.7
Regional averages						
Middle East	8.26	20.83	42.78	46.47	36.57	57.44
Africa	5.59	39.78	34.70	37.47	37.29	54.57
East Asia	3.42	19.06	19.39	38.96	26.04	63.72
Developed countries	3.16	21.89	25.76	21.00	22.95	74.46
Latin America	3.82	53.76	50.52	29.10	44.45	59.17
South Asia	1.64	14.22	20.15	62.07	32.21	67.18

Notes: Region averages are population-weighted means of scores for the countries for which data is reported. Source: World Bank World Development Indicators 2006, World Bank Doing Business 2008 Report, and Heritage Foundation 2008.

Across the region, private employers account for two to three times as many employees as the public sector; yet they do not have the same degree of influence on youth incentives for education or expectations for employment as the public sector.

are responsible for a sizable share of new jobs created and where most youth find their first job.¹⁵ Smaller firms stay informal in part to avoid the tight regulations placed on formal private sector firms (Schneider and Enste 2000). Informality of small firms is problematic because it reduces the possibility of expansion and job creation.

Because of ease of entry, the informal sector is where most new labor market entrants begin their work experience (Assaad and Barsoum 2007). Youth can move frequently between jobs in the informal sector, which, at least in the United States, has been shown to be important in the search for stable employment (Topel and Ward 1992). Early work experience impacts skills development in two main ways. First, it allows for the gaining of skills which are not taught in schools. Second, work experience signals these skills to future employers. But informal firms are not in a good position to do either because, being informal, they are less inclined to invest in reputation or technology. Consequently, skills acquired in small, informal enterprises remain disconnected from both formal schooling and future careers. The tragedy of skill formation in most Middle Eastern countries is that families enter their children into the race for public sector jobs while most actually end up starting their careers in the informal sector. Despite the formal sector's limited role in absorbing youth workers, it sends the strongest signals for skill formation while informal employers play almost no role in fostering the right skills and attitudes toward work.

An important challenge for policy is how to take advantage of this large informal sector for skill formation and employment. Formality increases the value of small firms as the first employers of youth; informal firms do not make good stepping-stones for formal sector jobs because the work experience they provide is less credible for future employers. Consequently, even workers with the ambition to use temporary jobs to build their career may not see the point in proving their work ethic and diligence to informal employers. New approaches are needed to make working in the informal sector more attractive for youth. For example, a recent UNDP publication introduces the concept of “SMEs as Learning Labs” as a tool to promote human capital development and skill formation (UNDP 2007). Mechanisms to “formalize the work experience” within informal firms are needed so that these small companies can signal their employee's work experience, competencies, and skill formation to future employers. This not only would increase the incentives of young people to take up short-term employment, it also would increase their incentive to work hard and learn new skills on these jobs.

Gender and Employment

Women continue to experience greater hardship in their school-to-work transition. While seven out of ten working age men are employed, only two out of every ten working age women have jobs. Even if a portion of these numbers may be explained by a desire not to work, the existence of considerable unemployment indicates that many women in the re-

gion want jobs but are unable to secure them (ILO 2007). Women also face much longer wait periods than do young men. In fact, this particular phenomenon is one that remains almost unchanged, showing no signs of improvement compared to men (As-saad and Barsoum 2007, Salehi-Isfahani and Egel 2007).

There are numerous barriers leading to these gender discrepancies, some structural and others due to cultural perceptions and the signals and incentives received by young women and their families from various institutions. For example, there is a gap in the region between perceived workplace suitability and cultural norms. Many of the conditions in the informal and private sector are deemed unsuitable for women. Small firms do not give women a sense of security such as larger, more populated workplaces in most public sector settings. Fear of sexual harassment in smaller work settings is thus one of the main reasons why many female graduates decide to stay at home or wait for public sector employment. Public sector retrenchments under structural adjustment programs and steps toward increased market economy orientations are thereby leading to defeminization of the labor market (As-saad and Barsoum 2007).

Discrimination against women, particularly married women, is fueled by the belief that women are less attached to the labor market and are more likely to quit their jobs after marriage and childbearing. Women are therefore largely relegated to weak commitment and high turnover occupations. Finally, because women are overcrowded in a limited number of sectors, this depresses their wages, giving rise to the gendered wage disparity, which is well documented in the region. This constitutes another barrier to women's work since their earnings are often well below the opportunity costs of their time, especially after marriage (World Bank 2004b).

Some barriers to women's employment can be linked to the availability of oil rents. Relatively high income levels made possible by the oil boom windfall, particularly as remittances from workers in the Gulf area, have made it unnecessary for women to work outside the house and thus have restricted the

supply of their labor (Karshenas 2001). Another argument posits that oil related revenues have distorted the structure of the economy by increasing jobs in non-tradable sectors that traditionally are male dominated, such as construction and services. These revenues also have reduced the international competitiveness of tradable industries that have higher rates of female employment such as textiles, garments, and food processing.

The Incentives for Job Search and Labor Supply

Labor market institutions and social norms affect young people's willingness to work and how they search for jobs. Those who decide to participate in the labor market (about 90 percent of men and one-third of women in the Middle East) often face a choice between waiting or searching for desirable jobs in the formal sector or building a career through multiple short-term employment stints.

Youth search behavior is intimately related to what Cunha and Heckman call "the technology of skill formation" and the organization of the labor market. In flexible markets, youth are able to try different short-term jobs that teach them about their own interests, provide them with new skills, and lead to long-term careers. Learning in school and through short-term jobs is connected with the development of a career trajectory. In rigid labor markets, youth queue up for secure, often public sector, jobs and treat short-term jobs as mere waiting. All learning is compressed during the years spent in school and little subsequent learning takes place in short-term jobs after graduation.

In the Middle East, long unemployment durations can be understood by making a useful distinction between job search, which takes place in the formal sector, and career search, which can begin in the informal sector but end in a formal job. For most Middle Eastern youth, the former option is more attractive. The lack of a career perspective can be attributed to the fact that short-term jobs in the informal sector neither significantly expand human capital nor reveal soft skills of young employees, and thereby fail to lead to productive careers. Because the labor market is unable to record and reward short-term work experiences, especially in the informal sector, search for the formal job is pro-

longed and youth spend more time in unemployment. The choice of job versus career search also is influenced by the incentives that originate in the non-market institutions, such as the social norms regarding work status that operate in the marriage market. In many Middle Eastern societies, these norms place a higher value on a young man waiting for a stable job than engaging in short-term jobs that are considered of low status and send the wrong signals about his long-term ability as a provider. As a result, most “good” jobs have become associated with the formal sector and all “bad” jobs with the informal sector.

Another important determinant of the length of time a person is willing to wait for a job is the reservation wage. The reservation wage is the wage at which an individual is indifferent between working and not working. High reservation wages have been used to explain why the duration of unemployment for high school graduates is long despite high demand for unskilled and semi-skilled labor in certain parts of the region. Blomquist et al (2008) argue that in Egypt high reservation wages are a factor in the high unemployment of women and those with a university education. Similarly, El-Hamidi and Wahba (2006) imply that high reservation wages are at fault when they argue that educated Egyptian youth are voluntarily unemployed because they refuse to take informal jobs, perhaps expecting to land a more secure public sector job.¹⁶

Several factors contribute to high reservation wages. As noted earlier, an obvious explanation is the availability of oil rents in many Middle Eastern countries. Oil rents raise the reservation wage by artificially inflating public sector wages for educated youth and by raising household incomes through transfers and subsidies, thereby reducing the supply of labor of family members, in this case youth. Also stronger family support in Middle Eastern societies can increase the reservation wage because it provides youth with the option to live with their parents (or receive other forms of parental support) while waiting for employment. Such an argument has been advanced to explain differences in youth unemployment between northern and southern Europe (Amendola et al. 2003, Hammer 2003). Strong family ties thus can reinforce the effect of oil rents, but whether they do so in the Middle East is an empirical question. Active family support could exert the opposite effect on the time youth spend waiting for a job if family networks help them find a job sooner. Finally, the negative stigma attached to manual labor also can raise reservation wages. In addition, the familiar sunk cost fallacy may be at work: having made the investment in higher education to qualify for these public sector jobs, youth may be unwilling to accept informal sector jobs after graduation.

VI. MARRIAGE AND FAMILY FORMATION

In Middle Eastern societies, marriage is considered “the cultural meaning of adulthood” (Singerman 2007). Marriage and family formation are almost synonymous, since births out of wedlock are rare, and marriage, though delayed, is nearly universal. Despite the importance of marriage as the main marker of transition to adulthood, and the strict rules against sexual relations outside of marriage, the age at marriage has been rising in the Middle East (Dhillon and Yousef 2007). Men in their late twenties have one of the lowest marriage rates in the developing world. To the extent that this delay is involuntary, it is an important cause of youth exclusion and of social and psychological stress for youth and their families. Singerman (2007) argues that “protracted adolescence” in the Middle East not only has compromised “the full participation of young people in Middle Eastern societies,” it has imposed “social, moral, sexual, and economic costs.”

Table 3 highlights the position of the Middle East as the region with the highest delays in marriage in the developing world. Since the 1980s, marriage rates in the region have dropped more sharply com-

pared with the rest of the developing world. The percentage of Middle Eastern men aged 25-29 who were married declined from 63 percent in the 1980s to 53 percent in the 1990s compared to an average decrease from 76 percent to 73 percent for the developing world as a whole (Table 3). In the 1990s, only half of Middle Eastern men aged 25-29 was married compared to 77 percent in East and South Asia. Middle Eastern women, too, had one of the lowest marriage rates in the developing world.

Delayed marriage is in part a consequence of choices made by young men and women to stay longer in school, have fewer children, or participate in the labor market.¹⁷ This is particularly true of the new generations of Middle Eastern women who, compared to their mothers, are twice as educated, desire to have less than half as many children, and are more willing to participate in the labor market. But, given strict taboos against relations with the other sex outside of marriage, it is difficult to believe that young people would delay marriage into their thirties voluntarily. To some extent, the delay in marriage is caused by lack of jobs or resources to form a family. Prospective grooms who lack access to fam-

Table 3: Marriage Trends for Women and Men 25-29 in the Developing World (percent ever married, weighted averages)

	Women		Men	
	1979-89	1990-2000	1979-89	1990-2000
Middle East	87.7	81.4	63.0	53.4
Eastern/Southern Africa	89.2	83.4	71.8	66.5
West Africa	93.5	92.3	61.6	60.5
East Asia	95.9	91.6	82.7	77.2
South/Southeast Asia	93.7	93.4	77.5	77.2
Central Asia	85.0	80.7	78.0	66.0
Central America	81.0	79.3	72.0	68.8
South America	75.9	76.0	65.3	62.8
Total	91.6	89.4	76.0	73.1

Source: Lloyd 2005

Today, the best that a young man can offer as evidence of future financial security is his career prospects. But the necessary institutions to provide strong signals of future earning potential are yet to be established and accepted in Middle Eastern countries.

ily financial resources are expected to show evidence of their ability to provide for their family in the future. This can be very difficult to do at a time when secure (public sector) jobs are fewer in supply and education (a degree) no longer is a reliable signal of future earnings.

The involuntary delay in marriage also is caused by inflexible social norms and expectations that place too much emphasis on economic security at a time when education and labor market outcomes are changing rapidly. In Middle Eastern societies, institutions of marriage such as marriage contracts are deeply embedded in tradition. Marriage contracts are forward-looking agreements involving complex negotiations about the exchange of resources between two families. They are intended in part to ensure the woman's welfare in light of women having traditionally lacked access to independent sources of income and men having greater power in the dissolution of the marriage.

In the past, when kin marriages were more prevalent, young men were not expected to provide external assurances of their future financial security (Singerman 2007). Young men who married outside the family often had more education and perhaps even a government job with which they could signal their future earnings with some degree of certainty. However, increased mobility due to internal migration and urbanization have made kin marriages less likely though still desirable as a way of reducing uncertainty and costs associated with marriage. As the old pathways to family formation for millions of

youth with high school and university education have disappeared, the marriage market has not responded with the means to enable young couples to form a family and strive together for economic security.

Today, the best that a young man can offer as evidence of future financial security is his career prospects. But the necessary institutions to provide strong signals of future earning potential based on skill set and job experience (a resume) are yet to be established and accepted in Middle Eastern countries. The response of the marriage market to increased uncertainty about future earnings of young men has had the effect of making marriage more expensive, with the up-front costs of marriage serving as a screening device to sort out grooms with fewer financial resources. Consequently, the groom and his family are forced to stretch their resources to signal higher social and economic status and financial means. In Egypt, where costs of housing and household appliances make up part of the marriage costs, and "the bulk of financial obligations... are still borne...by the groom and his family," the costs of marriage are high (Singerman and Ibrahim 2001, Singerman 2007). In Iran, the cost of *mab-rieh*, or dowry (a prenuptial agreement to pay a certain sum of money to the bride), has increased, prompting a discussion in Iran's parliament of *mab-rieh* as an obstacle to marriage.¹⁸

The costs of marriage are in part related to institutions such as family laws and labor markets. In countries where family laws or social custom (*wrf*)

have adapted to changing circumstances, marriage should become less costly and more accessible because these laws improve the bargaining power of women within the household. In situations in which women have lower bargaining power within the marriage (especially as it pertains to divorce), a woman's family will negotiate for higher up-front marriage costs. But better family laws and more women-friendly labor markets improve women's bargaining power, leading to lower costs of marriage. Such changes in family law and social custom or both have come about in Morocco with the adoption in 2004 of a Family Law which grants women greater rights and equality in marriage and divorce, among other things (Touimi-Benjelloun 2003).

Elsewhere in the Middle East, family laws and social customs have remained more rigid. In Iran and Saudi Arabia, the *sharia* gives men the exclusive right to divorce their wives. In Iran, where change in the balance of men and women of marriageable age has been most pronounced, evidence suggests that social norms regarding marriage have been resistant to shifts in demography. There is little evi-

dence of flexibility in the one variable that can adjust for this imbalance—the age gap between the bride and the groom. The baby boom between 1979 and 1984 has raised the proportion of Iranian women aged 20-24 to men aged 25-29 by 30 percent (Salehi-Isfahani and Egel 2007), yet the age difference in married couples has remained constant. However, there is flexibility in the education gap; women are more willing to marry less educated men (Angrist 2002).

In many respects, the rigidity in marriage customs and practices and the delay in marriage are a consequence of imperfections in credit markets, where young people are unable to use their education and employment as a signal of future earning capacity. More flexible credit markets would allow young couples to bear the high up-front costs of marriage and family formation through loans, allowing them to leverage future earnings to cover current expenses. So, in many respects, the challenges associated with family formation and marriage are linked to the lack of accessible credit mechanisms to facilitate consumption smoothing.

VII. HOUSING AND CREDIT

Youth need access to credit to start businesses, purchase homes, or pay for the initial costs of family formation. Their need for credit often goes unmet because of a lack of collateral, steady jobs, or reputational capital required to obtain credit. Left alone, credit markets in the Middle East fail in their most important mission of allowing individuals to smooth consumption by borrowing against future income.

The experience of developed countries suggests that mortgage lending has important externalities for economic growth and poverty reduction; policies that promote access to housing finance also promote growth and reduce poverty (Erbas and Nothaft 2005). In the Middle East, where the greatest challenge for credit markets is provision of housing finance for youth, good credit market policies not only would contribute to a more widely shared growth, they could also help facilitate youth inclusion.

Of the various need for credit, housing credit for youth stands out for the role it plays in the transition to adulthood. The initial cost of obtaining housing, which in Egypt constitutes about one-third of the cost of marriage, has emerged as a major obstacle for young men to marry and start families (Assaad and Ramadan 2008). This is especially true for the growing majority of youth who live in urban or peri-urban areas across the Middle East and are aspiring to independent living arrangements after marriage. Further, as with marriage, the long-term commitment involved in owning a home, or even a lease, may help strengthen a person's resolve to succeed in his or her job by investing in human capital and to become a better citizen by investing in social capital (DiPasquale and Glaeser 1999).

Affordable housing is increasingly out of reach for Middle Eastern youth because of growing costs, caused in part by large inflows of oil revenues into the region and housing policies. In Iran, the proportion of youth 25-29 who live with their parents has increased by 50 percent in the last decade (Salehi-Isfahani and Egel 2007). In Egypt, housing policies since the 1960s, which introduced rent control laws, curtailed the supply of housing, requiring tenants to pay significant amounts of advance rent up front to secure housing. The need for up-front cap-

ital for housing is likely to be a main contributor to delayed marriage among young men (Assaad and Ramadan 2008).

In addition to housing market rigidity, housing credit is also underdeveloped in the region. Mortgage lending is not well developed in the Middle East, even for older borrowers (Erbas and Nothaft 2005, World Bank 2005). Middle Eastern countries have very low housing credit portfolios—defined as the ratio of mortgage loans to total loans in government and financial institutions. The latest data reported by the World Bank (2005) indicates the low development of housing credit in the region (Table 4). Housing credit comprised only 7 percent of all lending in Egypt compared to 44 percent in the United States (Erbas and Nothaft 2005). So there is much room for expansion of the mortgage market to serve the needs of the general population. The stable macroeconomic outlook for most countries in the region and the willingness of most countries to adopt more liberal financial market policies offers a good opportunity for reform of housing finance. This is all the more urgent as access to housing for first-time buyers is likely to become more difficult with the current oil boom since physical capital generally appreciates faster than increases in income from human capital development. Therefore, the expectation of independent living, which is an integral part of the attraction of modern urban life, is becoming increasingly out of reach for many youth.

From the perspective of banks and credit agencies, lending to youth is risky because of the uncertainty in estimating their future stream of earnings. A significant number of youth face high unemployment and their formal schooling is no longer a good basis for predicting their future earning potential.¹⁹ Thus, the group with the worst prospect for transition, the unemployed high school graduates, also would appear to be the least creditworthy.

Innovative youth-centered credit programs could help young people borrow for investing in skills, self-employment, or family formation and pay back the loans with future earnings, thus helping youth overcome the intertemporal problem of consumption smoothing. For example, the aggregate risks of

youth lending may be more manageable for the government through government loan guarantee programs.

The challenge for policy-makers is to design youth-targeted programs that do not include direct housing subsidies for youth. These subsidies generally weaken incentives and compromise the development of credit markets and reform in other sectors. But targeting can create distorted incentives that do not encourage productive behavior. For example, as with some job programs, credit targeted at youth with the highest degrees intensifies credentialism, the very behavior that reforms in education and the labor market should be changing. Credit programs should be designed to target a wider group of youth

and to promote skill formation by giving preference to youth who undergo retraining, volunteer for community service, or have job search and temporary work experience. Direct subsidies, such as construction of low-income housing through state corporations²⁰ or rent subsidies, are less effective than market-based subsidies because they fail to strengthen incentives of youth for investing in their own future.

Effective interventions in the education system and the labor market could also help make youth more creditworthy. Programs that help youth define career paths backed by investment in specific skills would enable them to signal future earnings to lenders beyond just school credentials.

Table 4: Housing Supply Indicators for Selected Middle Eastern Countries

Country	House Price-to-Income Ratio	Housing Credit (percentage)*
Algeria	8.1 (2002 est.)	6.5 (2001)
Egypt	4.9 (1998)	7.4 (1993)
Iran	9 (2002)	-
Jordan	6.5 (1998)	19 (1999)
Lebanon	9 (2002)	9 (1995) including credit for construction
Morocco	9.2 (1998)	13 (2001)
Tunisia	5.2 (1998)	10.4 (2000)
Yemen	10-17 (2000)	-

Source: World Bank 2005

Note: Housing credit ratio of total mortgage loans to all outstanding loans in both commercial and government financial institutions.

VIII. A POLICY FRAMEWORK FOR YOUTH TRANSITIONS: REFORMING INSTITUTIONS AND INCENTIVES

For the first time in its modern history, the Middle East is simultaneously experiencing an economic boom and a demographic boon. The region has a historic opportunity to take advantage of these twin dividends to build a foundation for lasting prosperity. The demographic bulge is peaking in many countries and the window of opportunity for growth will close in the next ten to fifteen years. At that time, the level of interest in youth issues would have peaked as well, closing the window of opportunity for reform. The time for policy action to secure this double dividend is now.

This framework has specific implications for policy reform designed to improve the incentive structures that youth face. There are three important principles that should guide policy: what not to do, what to do, and how to do it. This is followed with broad themes for policies to improve skill formation and reduce “waithood” suggested by the framework.

What Not to Do

The first goal of policy should be to do no harm. At a time when policymakers are rushing to solve urgent youth problems, quick fix solutions can do harm to the long-term goals of improving incentives. Subsidies to help youth get started in their careers and form families are well intended and do provide relief, but when they give preference to high school or university graduates or aim exclusively at these groups, they reinforce the distorted incentives that have led to the difficult situation of Middle Eastern youth in the first place. Two large job creation programs in Iran and Morocco, funded with over one billion dollars each, do just that—give priority in credit and employment subsidies to graduates.²¹ While employing skilled workers may be needed urgently, basing eligibility for such programs on degrees or diplomas has the unintended effect of bolstering existing distorted incentives for diplomas and degrees and worsening the mismatch of skills for future job market entrants. The best-designed policies are those that offer short-run solutions without jeopardizing long-term outcomes. In the case of employment, such policies would strike a balance between solving the short-term problem of unemployed graduates while encouraging those still in school to seek a more balanced portfolio of skills.

Similar examples of well-meaning policies that fail to tackle underlying incentive structures may be found in family formation. Policies that aim to help youth get married by reducing the cost of marriage, such as government-arranged mass marriages or legislation to limit *mabrie*, miss a subtle point about the role that the cost of marriage may play in the marriage market. Marriage costs often serve screening and insurance functions that usually benefit women, especially where social restrictions prevent young couples from getting to know each other well before their formal union. Where women face increased risks of unilateral divorce by their husbands, larger amounts of *mabrie* discourage men from unilateral action. Thus, publicly provided “marriage loans,” such as Iran’s *Mabr Reza Fund*, can undermine women’s attempts to screen men for their commitment to marriage and for their ability to provide because they ignore the complex social rules that are there to signal unobserved characteristics of marriage partners to each other. Instead, policies that deal with the underlying uncertainties and information problems in marriage in an era of greater geographic mobility and declining community role in family formation have a greater chance of lowering marriage costs in the long run.

Generally, effective credit programs in employment or family formation provide borrowers with both financial and reputational capital because they evaluate borrowers for their future earning potential before granting loans. Blanket approvals based on age or, worse, credentials destroy the incentives of borrowers to build their reputational capital and provide no information to future employers or marriage partners.

What to Do: Specific Policy Recommendations

The main objective of policy should be to build a healthy microeconomic foundation for youth transitions, one that offers incentives for skill formation and productive job search. Policy designed to achieve this objective should take into account the interconnectedness between outcomes in education, employment, and family formation so that improvements in one area do not impinge on incentives in others. Recognition of this interconnectedness implies that interventions in some areas may be more effective and easier to implement than

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in others. So effective policy should identify the binding constraints where it has the greatest chance of untying the knot of youth exclusion.

This paper identifies skill formation as a major binding constraint for the majority of countries in the region, with the main culprit being the lure of public sector employment. Therefore, increasing the role of the private sector and market forces in human capital formation should be the main thrust of policy. In this regard several broad reform initiatives can be identified.

First, enable private sector employers to send clearer signals of the type and range of skills they find productive and are willing to reward. The most successful way to achieve this is to offer them greater flexibility in hiring, compensation, and dismissal of workers. But where such reform is difficult or takes time to implement, effective signaling can be incorporated into criteria for public sector hiring, standards for grade promotion, and university admission policies. Second, make schools more responsive to these signals. As suggested by the World Bank (2008), when combined with effective signaling for skill formation, more accountable schools can help students prepare themselves for the new criteria of success in the labor market. Third, empower small business employers to transmit credible signals of a former employee's skills and productivity to other employers. This will make employment in small businesses more attractive for youth as a potential stepping-stone to better paying and more advanced jobs in their long-term career plan.

A number of specific policies can contribute to improvement in skill formation. These include reforming university admissions policies, introducing skill testing in public sector recruitment, reducing regulations affecting private sector hiring and dismissal, creating mechanisms that allow informal sector employers to provide credible information about employees' work experience, and promoting career trajectories among youth.

University Admission Policies

The lure of university education in most Middle Eastern countries suggests using university admission policies to change learning incentives in grades K-12. How universities select students influences how and what students learn at lower levels of education. As an example, good writing skills are a benefit to employers who depend on workers with good communications skills. Where university admissions are based on multiple-choice testing or limited critical thinking, which is nearly universal in the Middle East, students naturally under invest in writing skills. Because the perceived benefits of entering university trumps other, more distant, rewards, they would hesitate to invest in developing writing skills even if they knew that employers would reward their effort. Introducing a writing module in national exams would go a long way toward aligning their incentives with market rewards and thereby help diminish the mismatch of skills.

Employers also benefit from soft skills, sometimes called life skills, such as teamwork, critical thinking, leadership capability, and problem-solving. Univer-

sity admissions policies that place a high value on such soft skills can provide students and parents with the incentives to acquire these skills. In advanced countries, teacher recommendations play an important role in providing evidence of such skills to university admission officers. In doing so, they provide incentive for parents to instill such skills in their children at an early age. In addition, universities can give weight to past work experience and volunteerism which promote life skills at younger ages. Students naturally object to giving greater weight to subjective evaluation by teachers and admission committees in deciding university admissions because of the potential for corruption. More sophisticated mechanisms of evaluation (for example, multiple graders for writing) would go a long way toward allaying such fears. But ultimately with repetition, teachers and evaluators will realize that their power to recommend, and therefore their level of influence on student behavior, depends on objectivity in evaluation.

Public Sector Hiring

Today, public sector employers in the region generally hire smaller proportions of high school and university graduates. But because government jobs are highly sought, government employment practices have a disproportionate effect on skill formation for children and youth of all ages. In the long run, governments should change their employment practices, especially with respect to lifetime job guarantees, to remove this distortionary effect. But deep changes in the civil service code are not always politically practical and take time to implement. Two intermediate steps are suggested that will change the signals that public sectors transmit to parents and schools. The first step is for governments to send a “soft signal” by simply announcing that the public sector no longer will be the main employer of educated youth and that employment policies are being reconsidered. This could be combined with a second and slightly stronger signal, which is to introduce tests and interviews that evaluate personal traits beyond what is examined in schools and universities. Written exams for prospective entrants and judicious use of recommendation letters from teachers and employers would begin to delink government hiring and university

degrees and thus begin to reduce the negative grip of government employment on skill formation.

Finally, it is politically easier to suspend or remove government wage scales than job protection policies. Breaking tradition with seniority rules and introducing merit-based promotion and early retirement programs that stress productivity also are beneficial methods to send the right signals to youth.

Private Formal Sector Hiring and Dismissal Practices

The formal private sector plays an increasingly important role in hiring skilled workers. Any measures that enable private employers to signal what skills they deem productive and will reward accordingly will benefit skill formation. This is particularly effective in countries such as Egypt, where macroeconomic and trade reform has enabled the formal sector to become the main source of new jobs requiring global skills.

Yet in most countries of the region, larger private employers often reinforce public sector signals for skill formation because they must adhere to labor laws that regulate their hiring, compensation, and firing practices (Said 2001, World Bank 2004a). Wage scales and the high cost of layoffs prevent private firms from sending the right signals about rewards for productivity and a wider skill set. Politically, labor law reforms are difficult to implement. But as noted in the next section, youth and their parents can be a force for change in this direction. Egypt has relaxed its labor laws and smaller firms in Iran have been exempted from those laws. As with the public sector, intermediate steps such as sending soft signals and requiring evidence of a wider range of skills at the time of hiring would enable private employers to have a greater voice in skill formation.

The Small and Informal Sector

High priority should be given to policies that raise the value of informal, skill-enhancing jobs that can provide valuable work experience for youth. The goal is to enable informal employers to provide credible information about the work experience and general skills of their employees. Such information differs from a certificate in that it contains specific and individualized information about each worker.

In advanced economies, firm reputation and better information flow enable young workers to “bank” on short-term experiences through resumes and recommendation letters that record the nature of the job experience and the quality of skills the worker brought to the job. Resumes and recommendation letters are valuable to workers and employers if they are credible and the information in them can be verified. In flexible labor markets, where employers can terminate jobs at relatively low cost, such informal documents become useful tools for conveying information about worker skills. But informal information is less valuable in more rigid markets where employers incur high layoff costs. Employers then would insist on verifiable certificates.

If small firms are granted more flexibility in their personnel decisions, they may be more willing to take risks with less verifiable information. In such a situation, the value of a wage subsidy program could be enhanced by combining it with a program to collect and verify resumes and recommendation letters, enabling youth to accumulate skills while they gain work experience. Because subjective evaluations usually are discounted because of the possibility of corruption, the government or a designated nongovernmental organization can add credibility to signals provided by small firms by collecting recommendation letters for young workers and apprentices and randomly verifying that information. Firms and apprentices could be subject to random checks and penalized (by firms losing the wage subsidy and workers losing credibility) for providing false information.

Promoting Career Goals for Youth

This paper draws a significant distinction between jobs and careers. Jobs often are described as “good” (providing opportunities for advancement and acquisition of important skills) or “bad” (unstable, dead-end, no learning of skills). In today’s more fluid labor markets, youth should be aiming at “good” careers, which may entail working in some temporary or even “bad” jobs because they teach or reveal certain individual skills. To help young people invest in career trajectories rather than search or wait for a “good” job, labor market and credit policies should be coordinated. For example, separate wage and credit subsidy programs could be coordi-

nated to increase returns to investment in careers. Credit institutions could be encouraged to use the information from the resume bank in approving loans to young workers rather than based on education credentials, which is the case in some credit programs.

How to Do It

Youth policies should use local knowledge and help the knowledge base to grow. While this paper highlights common institutions and incentive structures in Middle Eastern countries, they are in many ways quite heterogeneous. Consider the previously mentioned example regarding the addition of writing modules to national tests: such a policy intervention intended to improve writing skills in Jordan or Iran may not work in Lebanon, where national tests play a smaller role in influencing K-12 education. Youth in Saudi Arabia and Yemen face very different institutional structures because the two economies are very different. Effective policies therefore require both local design and local knowledge.

Design of policies in specific areas also requires mapping institutions of relevance to youth transitions. Finally, all policies should have a rigorous evaluation and learning dimension built into their design. For example, practical, randomized experiments should precede national implementation of policies and programs, enabling local and regional knowledge to expand. With learning, even faulty policies have their use.

In conclusion, this paper considers the political feasibility of implementing reforms aimed at tackling the underlying causes of youth exclusion in the Middle East. Most of the policies recommended have been on the reform agenda for some time. The fact that they have not been fully implemented points to political constraints, especially in the area of labor market reform. Three factors are important to consider in assessing the feasibility of reform: interdependence and sequencing; youth and parents as political allies; and commitment to social protection.

First, sequencing and interdependence allow policymakers to start at the politically least controversial link and build momentum for reform in other areas. For example, to build a case for relaxing employment protection, it is important to first have in

place a system of income protection. Knowledge of interdependence should be used to design a sequencing of reforms that is politically more feasible. To promote the acquisition of productive skills, specific skills training in schools can be combined with incentives for employers (such as wage subsidies) to reward these skills.

Second, youth and parents should be viewed as political allies within the reform process. Implementing comprehensive reforms in education and the labor market undoubtedly will arouse a wide array of opposing forces. Teachers' unions may oppose greater accountability and workers' unions will oppose relaxing job protection rules. Fears of globalization are in large part related to increased job insecurity. But policies that provide job protection are highly inefficient because they provide job security for a limited group while increasing vulnerability to risks of globalization in the future. Tighter restrictions on layoffs create a wider gap between the type of skills rewarded by the global marketplace and those rewarded by the local market. The best long-term response to globalization is to unlock the employment potential in the region. Widening the set of skills workers invest in should be a first priority.

Fortunately, good youth policy and reforms can create their own constituency—parents and students. The economic and demographic transitions

in Middle Eastern countries drastically have changed family behavior, from procreation (combining high fertility and low investment in education) to education (low fertility and high investment in children) (Guriev and Salehi-Isfahani 2003, Salehi-Isfahani 2006). As the returns to formal schooling decline, the majority of parents have a large stake in improving the institutional structure that governs skill formation for their children.

Third, the reform process should involve a commitment to social protection and social insurance. As Yousef (2004) has argued, this reform strategy requires renegotiation of the social contract in the Middle East. The heart of this new strategy involves replacing old job protection rules and regulations with social protection and social insurance policies.

As noted earlier, reducing job protection is politically very difficult in most Middle Eastern countries, especially as jobs are threatened more than ever by globalization. Because of much higher oil prices, labor costs in the Middle East have risen faster than in East Asia, making traditional industries less competitive. Political barriers towards greater flexibility can be surmounted in part by simultaneously proposing social insurance schemes that can allay general fears and enlist the support of youth in waithood and their parents who seek a brighter future for their children.

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ENDNOTES

1. In Europe, social exclusion has been the dominant framework to explain how failures in one or more of these youth transitions can impede young people from fully participating in society.
2. See Sen (2000) for more on the concept of social exclusion.
3. See Dhillon and Yousef (2007) and the Middle East Youth Initiative *Working Papers* country series: Asaad and Barsoum (2007); Boudarbat and Ajbilou (2007); Kabbani and Kamel (2007); and Salehi-Isfahani and Egel (2007). For Latin America and the Caribbean, see Cunningham and Correia (2003).
4. Demographic pressures arising from an unusually large youth bulge are the most obvious explanation for employment difficulties currently faced by youth in the region. The share of youth in the workforce (population 15-29 divided by population 15-64) is as high as 41 percent in the Middle East (Iran), compared to one-third in other developing countries. The Middle East has the lowest employment-to-population ratio for youth, at 29.7 percent, compared to East Asia at 62.1 percent (ILO 2006). As Easterlin (1968) has argued in the case of a market economy, larger cohorts suffer in terms of income relative to their parents because of the imbalance in the labor market (see also Macunovich 2002). In the case of the Middle East, this is compounded because the largest cohorts in the region's history are pressing against an outmoded set of institutions ill-suited to provide training and absorb them in productive employment.
5. See the Middle East Youth Initiative Working Papers series. See Bloom and Williamson (1998) for a discussion of the demographic transition in Asia.
6. See Barakat (1993), Bates and Rassam (2000), Eickelman (2001), and Richards and Waterbury (2008).
7. See Dhillon and Yousef (2007), and the Middle East Youth Initiative *Working Paper* series.
8. The share of public sector employment in Middle Eastern countries averages 15 percent compared to 11 percent for other developing countries (Yousef 2004).
9. According to the most recent Human Development Report about youth in Turkey, it is mostly young men who benefit from the limited social facilities, such as Internet cafes, in rural areas. In focus group discussions conducted for the report, a young man explained that life is easier for men because they are able to walk up to the main road, hitchhike to town, and go to a coffeehouse or pastry shop; for girls, these activities are both dangerous and impossible. A young woman explained that life in her village begins after midnight, when men and boys gather to drink and talk; young girls cannot join them because they are not permitted out at night (UNDP 2008).
10. For similar statistics on youth volunteerism in the United States, see the 2007 Bureau of Labor Statistics report on volunteering in the United States. According to the report, 20.9 percent of 16-24 year olds volunteered at least once in the past year.
11. Egyptian parents spend \$2.4 billion annually on private tutoring (Douban 2006). See also Assaad and Elbadawy (2004) and World Bank (2007).
12. In Iran, the only testing done for TVE students is with multiple-choice exams.
13. For a more detailed description of labor market regulation in the Middle East, see World Bank (2004a).
14. Indices of flexibility may underestimate the distortionary effect of regulation on skill formation if they include the informal sector, which is not subject to labor laws and is naturally more flexible. This paper focuses on the rigidity of the formal because the signals that matter for skill formation are those that originate in that sector.
15. In Tunisia, about half of the jobs for university graduates of 2004 were in firms with less than 50 employees (Ministre de L'Emploi et de L'Insertion Professionnelle de Jeunes 2008).
16. This is a somewhat unusual definition of voluntary unemployment because the census definition of unemployment does not require the absence of any job offers but simply for the person to be searching for a job.
17. The following discussion of marital patterns and marriage markets in Middle Eastern countries is guided by Becker's theory of marriage (Becker 1973).

18. The high cost of *mabrieh* is viewed frequently as an obstacle in Iran. In 2005, the Iranian parliament rejected a bill to put a ceiling on *mabrieh*. A female parliamentarian, who opposed the bill, noted that the prenuptial agreed sum was “proof of the husband’s honesty, ... and in no way a means of pricing the woman.” Iran Daily <http://www.iran-daily.com/1384/2350/html/panorama.htm#s83577>, accessed on 9/10/07.
19. In Iran, only 8.2 percent of self-employed youth obtain their capital from banks; the rest receive capital from friends and family (Statistical Center of Iran 2005).
20. Such programs exist in Egypt (Erbas and Nothaft 2005).
21. Morocco’s \$1.2 billion *Moukawalati* (My Businesses) supports the creation of firms and promotes self-employment among graduates by granting long-term loans to young people at preferential rates. This program is intended for graduates aged 20-45 with vocational training, secondary diplomas, or university degrees (Boudarbat and Ajbilou 2007). Iran’s \$4.5 billion wage subsidy program was launched in 2003 (Salehi-Isfahani and Egel 2007).

ABOUT THE MIDDLE EAST YOUTH INITIATIVE

Our Mission

To develop and implement a regional action plan for promoting the economic and social inclusion of young people in the Middle East.

Creating Alliances for Maximum Progress

The Middle East Youth Initiative's objective is to accelerate the international community's ability to better understand and respond to the changing needs of young people in the Middle East. By creating an international alliance of academics, policymakers, youth leaders and leading thinkers from the private sector and civil society, we aim to develop and promote a progressive agenda of youth inclusion.

The Middle East Youth Initiative was launched in July 2006 by the Wolfensohn Center for Development at the Brookings Institution in partnership with the Dubai School of Government.

Connecting Ideas with Action

The initiative blends activities in an attempt to bridge the divide between thinkers and practitioners and utilizes robust research as a foundation for effective policy and programs. The initiative has three complementary pillars:

Research and Policy: Pathways to Inclusion

With this initiative, cutting-edge research advances the understanding of economic and social issues affecting young people. The main target group is youth 15 to 29 years old, with a special focus on young men and women who live in urban areas and have secondary or post-secondary education. In addition to addressing needs of older youth, the initiative will also focus on strategies for promoting development of youth 15 years and under in areas such as primary education, skills development and community participation.

The research framework focuses on youth making two major transitions to adulthood: i) the transition from education to employment; and ii) the transition to household formation (marriage and family). Research will concentrate on strategies to achieve inclusion in:

- Quality education
- Quality employment

- Marriage
- Housing
- Civic participation

Our goal is to examine the relationship between economic and social policies and generate new recommendations that promote inclusion.

Advocacy and Networking: Creating Vital Connections

The initiative aspires to be a hub for knowledge and ideas, open to all stakeholders who can make change happen. Strong partnerships with policymakers, government officials, representatives from the private sector and civil society organizations, donors and the media will pioneer forms of dialogue that bridge the divide between ideas and action. By bringing in the voice and new perspectives of young people, the initiative will revitalize debate on development in the Middle East.

Practical Action: Life-Changing Impact

Outcomes matter. With a focus on areas with the greatest potential for innovation and impact, the initiative will mobilize partners for practical action that can improve young people's lives. The initiative will help develop policies and program interventions which provide youth with skills, expand opportunities for employment and facilitate access to credit, housing and civic participation.

ABOUT THE WOLFENSOHN CENTER FOR DEVELOPMENT

The Wolfensohn Center for Development at the Brookings Institution was founded in July 2006 by James D. Wolfensohn, former president of the World Bank and member of the Brookings Board of Trustees.

The Wolfensohn Center for Development analyzes how resources, knowledge and implementation capabilities can be combined toward broad-based economic and social change in a four-tier world.

The following principles guide the center's work:

- A focus on **impact, scaling-up and sustainability** of development interventions
- Bridging the gap between **development theory and practice** to bring about action
- Giving **voice** to developing countries, with high-level policy engagement and
- broad networking
- A **rigorous, independent research** approach that draws from multiple disciplines
- Working in **partnership** with others

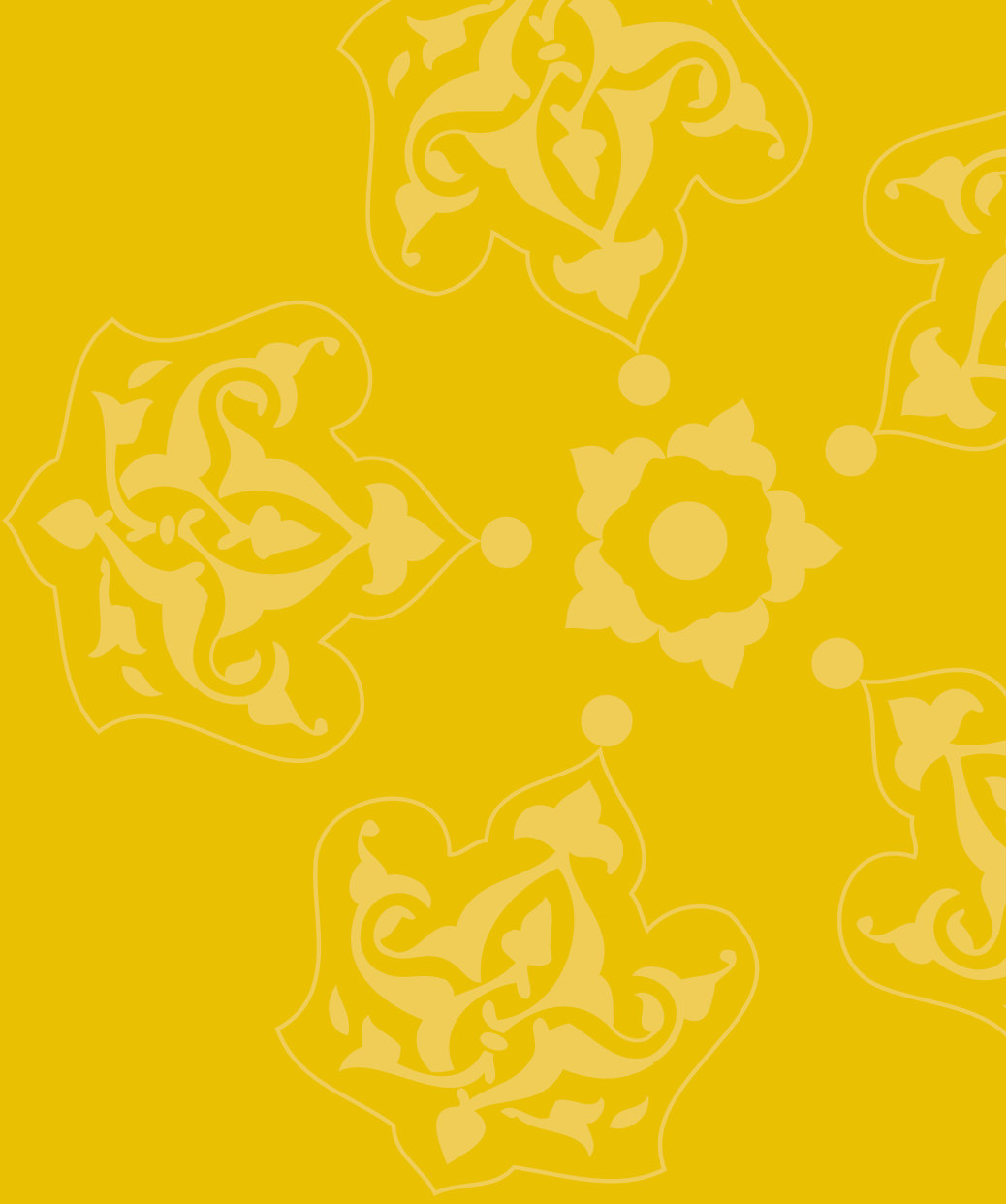
ABOUT THE DUBAI SCHOOL OF GOVERNMENT

The Dubai School of Government is a research and teaching institution focusing on public policy in the Arab world. Established in 2004 under the patronage of HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai, the school aims to promote good governance by enhancing the region's capacity for effective public policy.

Toward this goal, the Dubai School of Government collaborates with international institutions such as Harvard University's John F. Kennedy School of Government and the Lee Kuan Yew School of Public Policy in its research and training programs. In addition, the school organizes policy forums and international conferences to facilitate the exchange of ideas and promote critical debate on public policy in the Arab world.

The school is committed to the creation of knowledge, the dissemination of best practice and the training of policy makers in the Arab world. To achieve this mission, the school is developing strong capabilities to support research and teaching programs including:

- Applied research in public policy and management
- Masters degrees in public policy and public administration
- Executive education for senior officials and executives
- Knowledge forums for scholars and policy makers



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