

Stalled Transitions: How Institutions Are Failing Young People

Decisions taken by millions of young people and their families across the Middle East in education, employment and family formation are linked to the structure of institutions and incentives that shape behavior at the micro level. The institutions of relevance to youth transitions are the rules and regulations that govern the education system; 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 a future spouse and parent.²²

When institutions function well, they go a long way in assisting young people through important transitions.

Egypt's recent housing reforms are a case in point (See Box 5). However, across the Middle East, existing institutions governing the markets of education, employment and housing provide the wrong incentives and perpetuate challenges facing young people. Examples of outmoded institutional features and their effects on young people are summarized in Table 2 on page 16.

Middle Eastern labor markets are characterized by a high share of public sector employment and pervasive job protection in the formal sector (See Table 3 on page 17). When first established, these arrangements served important social objectives: public sector employment guarantees for high school and university graduates in Egypt and Morocco in the 1960s encouraged youth to stay in formal education. But today, these institutional arrangements work to the advantage of adults at the

BOX 5: EGYPT'S HOUSING REFORMS PAVE THE WAY FOR YOUNG TO MARRY

In Egypt, a series of recent housing reforms have reduced barriers to young people entering the rental housing market. This has, in turn, had positive effects in the marriage market. These reforms have liberalized restrictive rent controls, allowing for definite duration contracts and reducing the need for young home seekers to provide large capital outlays, or “advance rent,” in order to obtain initial housing.

As unaffordable housing is one of the main factors causing delayed marriage among men in Egypt, these reforms have simultaneously had a positive spillover effect in the marriage market for young Egyptians. A recent study by

Assaad and Ramadan shows that these reforms have led to a reversal in delayed marriage among young men, beginning with those born after 1972. For example, among urban men the average age of marriage dropped from a peak of 29 years for those born in 1972 to 27 years for those after 1972. A one-year drop in the median age of marriage translates into an additional 230,000 25- to 29-year-old men able to marry, or 16 percent of those married in that age range. The onset of the decline in male age of marriage is consistent with the time at which the far-reaching housing reforms of 1996 would have begun to affect the supply of rental housing.

Source: Ragui Assaad and Mohamed Ramadan, “Did Housing Policy Reforms Curb the Delay in Marriage Among Young Men in Egypt?” Middle East Youth Initiative Policy Outlook 1 (Washington, D.C.: Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2008).

expense of younger generations. For example, employment protection (higher firing costs) reduces turnover and undermines total employment growth because of reduced entry of new workers. These burdens are largely borne by young and female workers.

The following examples demonstrate how institutional arrangements are at the heart of the exclusion of young people and, when improved, how they can have positive effects on youth transitions.

Why Do Young People Prefer Public Sector Employment?

Today, governments are explicitly pursuing greater market-oriented development strategies including the expansion of the private sector and its role in economic growth. While the public sector remains large in many countries, public sector hiring has slowed and it provides fewer opportunities for educated students. Despite this, students and parents alike continue to perceive public sector employment as providing the best jobs—jobs that provide decent incomes, job security, and benefits, including access to decent pensions. Current policies and institutions pertaining to wages

and benefits reinforce the lure of government jobs (See Box 6 on page 18).

Why Is Skill Mismatch a Recurring Problem?

Despite poor labor market outcomes for educated youth, Middle Eastern parents continue to make educational investments for their children based on the signals they receive from the labor market. Parents and students alike perceive “good jobs” as requiring a university degree. This impacts learning and skill formation along the following dimensions:

Vocational Education and Training (VET) Is Devalued: Vocational education and training should provide a pathway for students to attain job-relevant skills; however, across the region, VET programs suffer because the training provided fails to keep up with employer needs and the rewards from VET education are too low to attract good students.²³ The low rewards for vocational training are tied closely to the institutions of formal education and the labor market. Perceived returns to the academic tracks are higher not so much because they teach more valuable skills but because they

TABLE 2: INSTITUTIONS IN THE MIDDLE EAST AND THEIR EFFECTS ON YOUNG PEOPLE

SECTOR	INSTITUTIONAL FEATURE	EFFECTS ON YOUNG PEOPLE
Education	<ul style="list-style-type: none"> University admission policies Tracking mechanisms 	<ul style="list-style-type: none"> Undermines value of vocational education Promotes rote memorization over investment in skills
Labor	<ul style="list-style-type: none"> Employment protection 	<ul style="list-style-type: none"> Protects older workers and reduces opportunities for young workers Makes firms less likely to hire new, younger employees (lower turnover) Contributes to informality where young people have fewer opportunities for human capital development
Housing	<ul style="list-style-type: none"> Rent controls Absence of mortgage facilities 	<ul style="list-style-type: none"> Limits access for first time buyers to afford to buy or rent housing Prolongs dependency on parents and failure to accumulate physical assets

provide the option for entering university. Because of the associated link between public sector employment and university education, few choose the vocational education track, as this track would exempt them from pursuing university education at a later date. Consequently, only the least able and least motivated students are perceived to opt for VET, while those involuntarily “tracked” to vocational education due to poor academic performance at earlier stages of their educations face the stigma of having what is perceived

as a second class education. Testing on the basis of ability, which usually takes place around ninth grade (14 years old), reinforces these perceptions. Moreover, employers—knowing the resulting distribution of talent—see vocational education as a dead-end track for poorly motivated students and offer lower pay to VET graduates, thus perpetuating the cycle. Laws that prevent employers from dismissing workers further discourage employers from taking risks in hiring VET graduates in the face of these probabilities.

TABLE 3: INDICATORS OF INSTITUTIONAL RIGIDITY IN THE MIDDLE EAST

COUNTRY/REGION	GOVERNMENT WAGES (% OF GDP)	DIFFICULTY OF HIRING INDEX	RIGIDITY OF HOURS INDEX	DIFFICULTY OF FIRING INDEX	RIGIDITY OF EMPLOYMENT INDEX
Algeria	7.1	44	60	40	48
Egypt	6.2	0	20	60	27
Iran	10.6	11	60	50	40
Jordan	14.4	11	20	60	30
Kuwait	14.7	0	40	0	13
Lebanon	8.2	44	0	30	25
Morocco	11.1	100	40	50	63
Saudi Arabia	..	0	40	0	13
Syria	..	22	40	50	37
Tunisia	10.5	28	40	80	49
United Arab Emirates	3.9	0	60	0	20
Yemen	12.8	0	60	40	33
REGIONAL AVERAGES					
Middle East	8.3	21	43	46	37
Africa	5.6	40	35	37	37
East Asia	3.4	19	19	39	26
Developed economies	3.2	22	26	21	23
Latin America	3.8	54	51	29	44
South Asia	1.6	14	20	62	32

Notes: Government wages reflect average values for 1992–2002. Indices are on a scale from 0–100, with higher values reflecting more rigid regulatory environments. Regional 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*.

BOX 6: SYRIA PURSUES MARKET REFORMS WHILE YOUTH STILL PREFER PUBLIC SECTOR JOBS

As Syria transitions toward a social market economy, the government is taking steps to instill a new social contract based less on government intervention and more on private sector solutions. Despite the government's interest in public sector retrenchment, however, signals and incentives from the government, including wages and continued high levels of government hiring, encourage young Syrians' overwhelming preference for public sector over private sector jobs. Over 80 percent of unemployed 15 to 29 year olds are interested in public sector jobs and 60 percent seek jobs exclusively in the public sector.

In contrast to the government's stance toward reducing public sector employment, the share of workers in the public sector has remained steady over the past seven years

at around 27 percent. In addition, public sector wages have increased substantially since 2000. Between 2001 and 2007, the average nominal hourly wage of a public sector worker between the ages of 20 and 29 increased by 70 percent while the average hourly wage of a private sector employee increased by only 50 percent. Furthermore, nearly 89 percent of young public sector employees are registered with the pension system compared to less than 9 percent of young private sector workers. As a result, lifetime earnings for young public sector workers exceed those for private sector workers among all groups (with the exception of men with a primary education or below). These increases in wages, better benefit packages and job security provided by the public sector have reinforced young people's preference for government jobs.

Source: Nader Kabbani, "Why Young Syrians Prefer Public Sector Jobs," Middle East Youth Initiative Policy Outlook 2 (Washington, D.C.: Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2009).

Race to University Entry Encourages Rote Memorization: The lure of a university diploma as the pathway to a public sector job drives young people into learning strategies—from early childhood to high school—that do not foster productive skills and job-relevant experience. In turn, young students devote their time and energies to preparing for high-stakes national examinations that are key to gaining access to university. Since such examinations are designed primarily to measure the acquisition of facts and knowledge through rote memorization rather than critical and independent thinking, students spend time preparing for these examinations at the expense of developing a broader range of knowledge and skills. Moreover, families across the Middle East spend considerable sums on private tutors that specialize in test preparation, rather than putting those resources towards productive skills training. Due to the structure and allure of university-tracked education, students and their parents end up spending time, energy and money acquiring knowledge that is not in demand by private sector employers.

Why Isn't the Private Sector Influencing Skills Development?

The formal private sector plays an increasingly important role in hiring skilled workers across the region. Enabling private employers to signal what skills they deem productive (and will reward accordingly) will benefit skill formation among youth. The influence of the private sector on skills development is weakened in two ways. First, in many countries, the signals sent by private firms are drowned out by strong public sector signals that, in some cases, offer graduates higher pay than the private sector and, in most cases, better job security, as noted above.

Second, 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. Given the hiring and firing restrictions, the private sector gives more weight to ex ante signals of productivity (e.g. diplomas, university degrees, test scores), reinforcing the importance of credentials.

Why Are Young People Not Building Skills Through Volunteer Work and Community Service?

Internationally, there is a great deal of learning that goes on outside of schools. For instance, young people learn life skills and gain valuable experience through volunteer work, extracurricular activities and summer employment. This is especially the case in developed nations, where youth engage in volunteer work while in high school and university, or following graduation, because they consider such work to be valuable for resume-building and a source of experience and skills acquisition. These activities can serve as a means for generating future income because they help young men and women gain admission into universities and bank on their experience when competing for better jobs.

Yet, despite the growing number of non-governmental programs oriented towards youth volunteerism in the region, and the greater levels of unemployment (and therefore the lower opportunity cost of time) that Middle Eastern youth face, they show less interest in volunteering and engaging in extracurricular activities than their counterparts in developed countries.²⁴ For instance, 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.²⁵

This contrast in behavior is a result of differences in the incentive structure that youth in developed nations and the Middle East face in regard to the labor market. When desirable jobs and positions in university are rationed solely by test scores and credentials, volunteerism and extracurricular activities are not considered a sign of productivity and skills acquisition. In turn, Middle Eastern youth are discouraged from investing their time in voluntary work because neither universi-

ties, 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.²⁶

MAKING INSTITUTIONS WORK FOR YOUNG PEOPLE

The above examples demonstrate how prevailing institutions—public sector wage policies, tight regulation of private employment, and narrowly defined university admission policies—contribute to distorted signals and incentives for young people. While many of these institutions, when first established, served important social objectives, today, in a much more competitive global economy, they provide the wrong incentives and hinder economic development.

For policy makers, a vital lesson of the oil boom years is that improvements in the macro environment alone will not erase the deep inequities that define the older and younger generations. Institutional arrangements—especially in the form of labor market protection—have strong distributional effects; in the Middle East they protect mature workers and exclude younger ones. Without a sound microeconomic foundation—one in which institutions generate the right signals and incentives—the benefits of macroeconomic and trade reforms, as has been demonstrated during these last few years, are limited.