

Foreword

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The 2009 inauguration, and leadership transition in the United States, has brought with it the promise of new energy and a change in U.S. foreign policy in the Middle East. Under President Barack Obama, U.S. policy in the Middle East is no longer dominated by the “war on terror.” Instead, a new relationship is being defined on the basis of mutual respect and partnership, as the president outlined in his speech to the Muslim world at Cairo University in June 2009. Along with the traditional focus on diplomacy and defense, this partnership promises to elevate economic development in the Middle East, promoting education, employment, and economic growth.

At Brookings, we believe that this approach holds the potential to both further prosperity in the Middle East and secure U.S. strategic interests. One of the least understood features of the Middle East is that it is the youngest region in the world, with a majority of its population under the age of thirty. Unfortunately, too many young men and women remain trapped by low-quality education and unemployment, growing vulnerable to poverty and exclusion. As these challenges grow, the United States should reaffirm its commitment to promoting economic development across the Middle East.

The convergence of American and Middle Eastern interests in social and economic development is not new. The export of American higher education to the region, for example, has contributed to the rise of prominent academic institutions—such as the American Universities of Beirut and Cairo—which have produced many of the region’s leaders. Today, strong demographic pressures and an increasingly competitive global economy call for deeper and sustained cooperation between the United States and the

Middle East in building human capital and expanding opportunities for ordinary people.

Generation in Waiting, edited by Navtej Dhillon and Tarik Yousef, is the latest demonstration of our commitment at Brookings to playing our part in charting this course. This book provides a comprehensive analysis of the economic challenges confronting Middle Eastern societies and their young citizens. The work of the Middle East Youth Initiative is part of an ambitious and progressive portfolio of research advanced by the Wolfensohn Center for Development at Brookings and the Dubai School of Government. The Initiative focuses on promoting the economic and social inclusion of young people in the Middle East.

As policymakers in the United States establish new strategies of American engagement in the Middle East, *Generation in Waiting* brings a number of important and timely issues to the fore that often are left out of foreign policy debates. For example, in Iran, understanding the pressures that young people exert on the education system and labor markets helps us gain a better picture of the internal dynamics between the country's current regime and its citizens. In the Palestinian Territories, we can recognize that a solution to the conflict must entail a viable economic plan that responds to the needs of a growing young population. Finally, this volume's stark depiction of life in Yemen, one of the poorest countries in the Middle East, reveals a population on the brink and one that is in severe need of greater development assistance.

The Middle East Youth Initiative's in-depth research on the state of young people in the region must be taken into careful consideration in our quest to preempt future security risks in the region and to seek peace in the Middle East. By working with our partners in the Middle East, the United States can help create a brighter future for current and future generations and begin to restore those invaluable qualities of leadership, credibility, and compassion to the American image in the Muslim world.

Foreword

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Successful and progressive societies are defined by their ability to improve the quality of life for every successive generation. The Middle East faces a momentous challenge to ensure that today's youth and children, the largest segment of the population, have more opportunities than their parents and are able to contribute fully to the region's stability and prosperity.

Over the last four decades, many countries in the region have made impressive human development gains, paving the way for healthier and more educated generations. However, rather than emerging as an empowered generation, too many young lives in the countries discussed here are locked in a frustrating state of dependence on their families and governments. *Generation in Waiting* captures these trends. As this book argues, the quality of education in the region is often low, leaving young people unprepared to compete in the global economy. Young job seekers endure high rates of unemployment and long periods of waiting before securing employment. Furthermore, young people are experiencing deteriorating job quality as many of them start their careers in informal, low-wage jobs. In turn, young people are unable to allocate enough financial resources to marriage, family formation, and independent living.

Over time, policymakers across the region have come to recognize these problems, and many programs and policies have been established to target such obstacles. Higher education in the West Bank and Gaza has adapted creatively to a difficult security environment. Al-Quds Open University, for example, now provides distance learning to approximately 46,000 Palestinian students, making it the largest higher education institution in the West

Bank and Gaza. In Jordan, education reforms are changing curriculum and teaching methods to equip young Jordanians with a broad range of skills. In Egypt, early evidence shows that housing policy reforms have made it easier for young men to afford rental apartments and, therefore, cover one of the principal costs of marriage.

While such initiatives demonstrate real achievements, no country in the Middle East, despite unprecedented recent economic expansion, can claim to have sufficiently addressed the fundamental challenges facing its young citizens. Middle Eastern countries need to reform the basic institutions, which all too often work against the interests of young people. These reforms include: modernizing education systems so students gain relevant skills; expanding the private sector as the engine of job creation; curtailing and reducing the appeal of public sector employment so young workers avoid spending years waiting for government jobs; improving financial markets so young people can access credit to start businesses or purchase homes; and encouraging young people to contribute to society through civic participation.

Today, as Middle Eastern economies are coping with an ailing global economy, we fear that young people will bear the costs of the current downturn. The region's youth unemployment rates are already among the highest in the world, and with the slowdown in growth, young people's employment prospects risk worsening. While a tough economic environment might make reforms more difficult, policy responses pursued by Middle Eastern countries during the downturn will determine whether their young citizens will be able to exploit opportunities when the global economy recovers. Thus, it is critical that countries double their efforts to create a skilled and entrepreneurial work force and to expand the role of the private sector while reducing the appeal of public employment.

Given the changing economic landscape and the need to better understand the lives of young people, this volume, edited by Navtej Dhillon and Tarik Yousef, makes a timely contribution. Since 2006 the Middle East Youth Initiative, a joint program of the Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, has collaborated with some of the best scholars across the region to illuminate the complex economic challenges faced by young people.

By bringing together perspectives spanning the Middle East, *Generation in Waiting* provides a truly regional picture of how young people are coming of age. It not only portrays their current plight, but also makes the case for better policies if the Middle East is to avoid squandering its most valuable resource.

ABOUT THE MIDDLE EAST YOUTH INITIATIVE

The Middle East Youth Initiative (MEYI) is a joint project of the Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government. The first policy research program of its kind, MEYI is devoted to promoting the economic and social inclusion of youth in the Middle East. The initiative's main objective is to accelerate the regional policy community's ability to better understand and respond to the changing needs of young people in the region. By creating an international alliance of academics, policymakers, and youth leaders from the private sector and civil society, MEYI aims to develop and promote a progressive policy agenda.

The Middle East Youth Initiative has embarked on a new partnership with Silatech—a regional initiative funded by Her Highness Sheikha Mozah bint Nasser Al-Missned of Qatar—that seeks to promote large-scale job creation, entrepreneurship, and access to capital and markets for young people. The Middle East Youth Initiative and Silatech will work toward generating solutions in critical youth areas by promoting new knowledge, innovation, and learning across borders.

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 a member of the Brookings Board of Trustees. The Center analyzes how resources, knowledge, and implementation capabilities can be combined toward broad-based economic and social change.

The Dubai School of Government is a research and teaching institution focusing on public policy in the Arab world. Established in 2005 under the patronage of H. H. 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.

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GENERATION IN
WAITING

Introduction

The Middle East has been characterized as being in the grip of two great games.¹ In the first game, the interests of Middle Eastern nations and western powers intersect to shape geopolitics. The second game—less visible in our daily headlines—involves people and governments trying to advance economic development. But today, a third game, even less well understood, is being played out in the Middle East. This is the *generational game* in which the largest youth cohort in the Middle East’s modern history is striving for prosperity and thereby shaping politics.

In recent years, the Middle East has come to be defined by a series of dichotomies: democracy versus authoritarianism; Islam versus secularism; and economically successful versus stagnant. No matter what the fault lines, they all share a generational dimension. It is the young who are pressing against existing economic, political, and religious institutions and norms and forging new ones. This generational game is unfolding in a competitive global economy where young people in the Middle East seek the affluence and openness enjoyed by their peers in other parts of the world.

Over the past two decades, the demographic transition in the region has resulted in a young working-age population that is now the most important resource for Middle Eastern economies. Generally, a large working-age population, and proportionally fewer dependent children and retirees, can free up resources and increase savings, creating better economic and social outcomes. In this regard, there has been tremendous progress: the high mortality and illiteracy rates of past generations have given way to a gener-

ation that is healthier and more educated. There have been large gains in more equitable distribution of education between women and men.

However, development in the Middle East is proving uneven, bypassing the majority of young people. Previous generations benefited from free education, public sector job guarantees, and strong state support in the form of subsidies and entitlements. But for those born in the 1980s and later, these institutions, which once ensured intergenerational equity and social justice, are no longer working. The severity of demographic pressures have strained public sector employment and subsidized education systems. Even if these institutions could accommodate the youth bulge, they are not well suited in a world where innovation and entrepreneurship are the drivers of economic growth. As a result, young people in the Middle East are falling further behind their peers in other parts of the world, such as East Asia.

Today in the Middle East, education systems are failing to provide relevant skills, and labor market prospects for young workers are deteriorating. Young women are gaining more education but face widespread exclusion from the labor market. Delayed marriage is becoming a common phenomenon in some countries as young people face obstacles to family formation posed by unemployment, high costs of marriage, and lack of access to affordable housing. Together, these deficits are weakening economic mobility for current and future generations.

With this book, it is our objective to promote a better understanding of the material struggles of young people, which are bound up in larger questions about the Middle East's economic development and politics. This volume brings together perspectives from eight countries to analyze how young people are transitioning to adulthood and to elucidate how institutions are shaping these transitions. Our hope is that this volume will be viewed not within the narrow context of demography or security but rather within a larger agenda of inclusive development in the Middle East. The ultimate goal is to convince policymakers that reforms that tackle the disadvantages of younger age groups can potentially reduce the inequities that exist across income and gender.

Choosing a Framework to Study Young Lives

A number of theoretical frameworks have been used to analyze the lives of young people in different countries and regions. The most common are the neoclassical economic framework of human capital formation and the sociodemographic framework of life course.² The former stresses the impor-

tance of education and skills of young workers and their contribution to productivity and growth. The latter considers individual transitions and trajectories and their relationship to institutions and historical periods.³ In addition, the concept of *social exclusion* has been adopted to understand the factors that prevent certain groups from fully participating in the normatively prescribed activities of the society in which they live.⁴

More recently, international organizations have put forth policy frameworks. The World Bank's *World Development Report* of 2007 highlights the opportunities for accelerated economic growth and poverty reduction that can occur when policies and institutions that influence the human capital development of youth are strengthened.⁵ A report by the National Research Council in the United States focuses on the extent to which rapidly changing global forces affect youth transitions in developing countries, specifically the transitions to five key adult roles: adult worker, citizen and community participant, spouse, parent, and household head.⁶

In this volume, we build on these frameworks, taking the most relevant aspects of each and applying them to the Middle East. Three major features of our framework are as follows. First, we depart from the traditional approach of studying facets of young people's lives, such as education or employment, separately. Instead, we assess three major interdependent transitions: education, employment, and family formation. Here we pay special attention to marriage where possible, given the availability of data, because social norms in the Middle East make the transition to family formation critical to full social inclusion.

Second, we recognize that individual transitions and trajectories are part of a life course, which is often shaped by the history, economy, politics, and culture of Middle Eastern countries. Events, time, and geography, as well as the agency of individuals, modify and influence transitions. This realization leads us to recognize how life courses have varied across historical periods and national contexts.

Finally, throughout this volume, we stress the importance of institutions and the incentives they generate in influencing young people's transitions. We define institutions as rules and regulations that govern the education system; markets for labor, credit, and housing; and nonmarket institutions such as social norms.

Through this framework, it is our hope that policymakers and future researchers will see the lives of young people in a more interconnected way and recognize that young lives are institutionally patterned. In using this framework, this book marshals the best available data and evidence to elu-

cidate the lives of young people. While it contributes to a better understanding, it also exposes the limitations of our knowledge given the lack of high quality and available data in the Middle East.

Generation in Waiting: Structure of the Volume

This volume contributes to the growing interest in young people as they relate to development policy and practice. The chapters that follow attempt to provide a comprehensive assessment of the three major transitions of young people in eight Middle East countries.

In chapter one, Navtej Dhillon, Paul Dyer, and Tarik Yousef place the transitions of young people in a larger historical context, arguing that the challenges facing young people today in the Middle East did not exist a generation ago. They argue that previous generations faced a *traditional life course*, prevalent in mostly rural Middle Eastern societies, where the transition to adulthood was mediated by family and the community. An expanded role of state institutions between the 1950s and the 1980s paved the way for the *welfare life course*, where governments provided education, employment, and protection for citizens. Young people born since the beginning of the 1980s have faced a weakening welfare life course while at the same time a new life course has not yet fully emerged.

The authors provide a synthesis of how young people's transitions have become more complex and uncertain. While high demographic pressures and volatile economic growth have undermined the prospects of young people, Dhillon, Dyer, and Yousef emphasize the central role that existing institutions have also played in hindering economic development for the young.

In chapter two, Djavad Salehi-Isfahani and Daniel Egel posit that the discontent of young Iranians is receiving much attention from outsiders but that the understanding of the economic and social environment shaping their lives is limited. They present a detailed picture of Iran's fertility boom and bust from the 1970s to the 1980s that has paved the way for a youth bulge. In 1995 Iran had 13 million residents aged 15 to 29; this population is set to peak in 2010 at 20 million. Iran's reduction in fertility now presents the country with a "demographic gift" that can drive economic growth.

A foundation for human capital development is already in place in Iran. Salehi-Isfahani and Egel show that average years of schooling have doubled in a generation. However, young Iranians confront a highly competitive and exclusionary education system, where students compete to win the "university lottery." Once out of school, young Iranians confront unemployment

and long waiting times for a first job. Transitions to employment are hampered by a rigid labor market that is ill prepared to absorb a labor force expanding by 3 to 4 percent a year. Faced with bleak employment prospects and high costs of marriage, young Iranians are forced to delay marriage and remain dependent on their families.

Salehi-Isfahani and Egel argue that the postrevolution “social contract” must be reformed and that the most severe necessity for this reform emanates from the large youth population and its continued exclusion. Some steps in this direction have been taken: the size of public sector employment has declined; public sector payroll freezes have been implemented; and recent changes in the 1990 labor law exempted small and medium-size firms from restrictions on hiring and firing. But there is still a way to go before Iran’s education, labor, and marriage institutions can change to take advantage of the country’s demographic gift.

In chapter three, Ragui Assaad and Ghada Barsoum show that the transitions of young Egyptians are being shaped by the recent changes in Egypt’s economic and social environment. Starting in 2004, an economic revival led to a drop in unemployment rates. However, poverty levels remain unchanged because of the rapid growth of low productivity and nonwage employment. Young workers have been most affected by these changes, enduring the lowest earnings and the slowest increase in real earnings.

Assaad and Barsoum identify access and quality as two major challenges facing the education system. Young girls in Upper Egypt and youth from low socioeconomic backgrounds are highly vulnerable to early school dropout and nonenrollment. They identify the Egyptian labor market as grappling with three trends: it is increasingly young, has more females entering the labor market, and is made up of highly educated job seekers. As the youth bulge peaks, the number of new entrants in the labor market increased from 400,000 per year in the late 1970s to around 850,000 per year in the early 2000s. Assaad and Barsoum conclude by assessing the effectiveness of recent education and labor market reforms.

In chapter four, Edward Sayre and Samia Al-Botmeh turn our attention to the acute rupture between demographics and development in the West Bank and Gaza: a rapidly growing youth population with diminishing economic prospects. Sayre and Al-Botmeh posit that in the past Palestinian workers had two main sources of employment. Israel once provided a third of all Palestinian jobs, but in recent years the Israeli labor market has been closed to Palestinian workers. In addition, Palestinians once migrated to the Gulf States for work, but those jobs are now dominated by South Asian

migrant workers. As a result, young Palestinians face a protracted transition to employment. Highly educated Palestinians face diminishing prospects: the unemployment rate for 20- to 24-year-old university-educated men stands at 36 percent in the West Bank and 64 percent in Gaza.

Sayre and Al-Botmeh conclude that the public sector and international aid cannot create sufficient opportunities to absorb the burgeoning youth population. Fiscal strains will eventually force the Palestinian Authority to curb the expansion of its already large public sector, and no amount of aid can single-handedly stimulate growth and development. The authors underline the importance of lifting restrictions on the Palestinian economy and allowing freer movement of goods and labor into and out of the Palestinian Territories. In the absence of these preconditions being met and maintained, young Palestinians will be confined to a grim future.

In chapter five, Jad Chaaban focuses on Lebanon's post-civil war generation—a million strong between the ages of 15 and 29. He argues that Lebanon takes pride in its human capital, which is the only comparative advantage it has over its resource-rich neighbors. After the end of the civil war in 1990, Lebanon embarked on ambitious reconstruction efforts and record spending on education and health. However, these investments have not resulted in improved outcomes for the young. Educational inequities are large, with youth in poorer regions having lower enrollment rates than those in the cities; unemployment for young people is higher compared with adults; and emigration rates are alarming, with one-third of youth reporting a desire to emigrate.

Chaaban contends that political instability and the proliferation of conflicts, including the 2006 Hezbollah-Israel war, have created an unpredictable environment for young Lebanese. Persistent expectations of future conflict breeds apathy among the young, who see little point in setting long-term goals. Lack of opportunities has resulted in high levels of migration, perpetuating the vicious cycle of underdevelopment by draining the country of its human capital. In this context, Chaaban makes several recommendations for promoting greater economic and political inclusion of youth, such as improving access to education for students from poorer regions and encouraging public-private partnerships that employ young people.

In chapter six, Taher Kanaan and May Hanania provide a compelling analysis of the state of young people in Jordan. Kanaan and Hanania remind us that Jordan's recent history is characterized by sudden changes in territory, population, and economic shocks emanating from conflict in neighboring countries such as Iraq. They illustrate how the 1991 Gulf War,

the second Palestinian intifada of 2000, and the U.S. invasion of Iraq in 2003 have led to an influx of migrants into Jordan. This coupled with an average population growth rate of around 2.7 percent among Jordanians has endowed the country with a major asset—its human capital. To tap into this asset, Jordan must create over 50,000 new jobs every year just to maintain current unemployment levels.

However, Kanaan and Hanania point out that Jordan is far from meeting this challenge. The recent period of positive GDP growth has not only failed to create enough jobs, but the jobs created have not been of sufficient quality to meet the expectations of an increasingly educated labor force. The majority of new jobs have been in the construction sector, and these have largely been taken by foreign workers. Women remain marginalized, experiencing high levels of unemployment. Bleak employment prospects are having an impact on prospects for family formation: the median age of marriage is increasing for both men and women, especially since access to independent housing has become more difficult during the recent real estate boom.

Kanaan and Hanania provide extensive analysis of recent reforms in the education and employment sectors. They argue that despite these reforms, Jordan's political, social, and economic institutions still must evolve considerably to meet the needs of its large youth population. An education system that continues to prepare youth for public sector employment must be fundamentally changed. Furthermore, to cope with high labor market pressures, the economy must invent new engines of job creation given that the public sector and migration are insufficient.

In chapter seven, Brahim Boudarbat and Aziz Ajbilou paint a portrait of a young generation in Morocco coming of age as their country grapples with three major challenges. First, the arrival of the youth bulge coincides with poor macroeconomic performance and sluggish economic growth, which has limited the opportunities for young citizens. Second, Morocco has undergone rapid urbanization during the last four decades, putting pressure on urban labor markets. Finally, persistent poverty continues to affect the young, especially in rural areas.

Through better education and access to decent employment, many young Moroccan men and women in this generation are more empowered to break the trap of poverty and social exclusion. Access to education has significantly improved, and the gender gap in primary education has narrowed. Even unemployment has been slashed in the past few years. But these improvements also mask new disparities. According to Boudarbat and

Ajbilou, repetition rates in primary education are among the worst in the Middle East. Despite more investments in secondary education, Morocco's secondary enrollment rates remain low compared with countries with similar income levels. Transitions to work are defined by high unemployment and long durations of unemployment, especially among secondary and higher education graduates.

Boudarbat and Ajbilou argue that youth unemployment can no longer be seen as a business cycle phenomenon. While the spike in unemployment among educated youth results from the contraction of the public sector in the 1980s, it has mutated into a structural problem and a source of growing social tensions. The Moroccan government has responded with a proliferation of initiatives, such as the reform of the Moroccan labor code, to promote investment and the creation of special development zones. Still, according to Boudarbat and Ajbilou, the government's responses have been piecemeal and seldom evaluated to measure impact.

In chapter eight, Nader Kabbani and Noura Kamel focus on Syria's transition from a public sector–led economy toward a “social market” economy as the country becomes a net oil importer in the near future. Young people and their growing education, employment, and housing needs are an important impetus for these economic reforms. But because they prefer public sector jobs, they are also the source of resistance.

The challenge for Syria, argue Kabbani and Kamel, will be to build and sustain support for market reforms among members of the young generation who will be the benefactors of this change. What is first needed, the authors say, is reform in the education system. The mismatch between the skills of job seekers and the needs of employers is reflected in exceptionally low returns to education. In Syria, an additional year of schooling is associated with a mere 2 percent increase in wages compared with an average 10 to 15 percent increase globally. As part of the economic reforms, labor market outcomes for young workers will need to improve. Kabbani and Kamel show that youth unemployment has declined from 26 percent in 2002 to around 19 percent recently. Although many employed youth have found jobs in the private sector, the lure of public sector employment remains strong, especially among young women.

These employment preferences have an economic and social rationale: young women earn higher wages in the public sector; for men public sector jobs provide the stability and prestige necessary for marriage and family formation. While the Syrian government has reduced public sector employment and allowed private sector competition in many sectors, a number of

recent initiatives may reinforce the appeal of government jobs. Public sector wages have increased repeatedly since 2000. Unless retrenchment policies accompany efforts to better align public sector wages and benefits with a thriving private sector, queuing for government jobs will continue and support for economic reforms will weaken.

In chapter nine, Ragui Assaad, Ghada Barsoum, Emily Cupito, and Daniel Egel concentrate on Yemen—the poorest country in the Middle East and one that faces deficits in both human development and natural resources. Given the continuing high fertility rate of over six children per woman of child-bearing age, Yemen’s population is one of the youngest in the Middle East: over 75 percent of the population is under the age of 25. The authors argue that with a dwindling supply of natural resources, low levels of human development, and high levels of poverty, Yemen risks losing a generation to poverty.

The authors show that Yemen has some of the poorest education indicators in the world with low enrollment and widespread illiteracy. Poor educational attainment, low retention, and poor standards in education quality are pervasive throughout the country, but they have a disproportionate effect on young women in rural areas. The Yemeni labor market is defined by limited employment opportunities in the formal sector. Youth employment is primarily confined to informal employment, which offers limited job security and few opportunities for career advancement. A high incidence of migration to urban areas within Yemen and internationally reflects the extent to which youth and families must travel in search of gainful employment.

In response to these challenges, the Yemeni government has undertaken a series of reforms designed to increase school enrollment and promote job creation in the private sector. Adoption of the National Children and Youth Strategy in 2006 reflects the government’s commitment to improving the status of youth in Yemen. However, these efforts are constrained by a severe shortage of resources and limited institutional and administrative capacity. To begin to redress these shortcomings, the authors call on the international community, both in the West and among Yemen’s richer neighbors, to increase aid and assistance to Yemen.

In the concluding chapter, Navtej Dhillon and Djavad Salehi-Isfahani focus on how Middle Eastern countries are responding to the problems of their young citizens and draw attention to major gaps in the current approach. They argue that more investments in schools, training programs, and subsidies targeting young people, while well-intentioned, do not address the

underlying causes of social exclusion. They interpret the difficulties faced by young people as a consequence of failures in key market and nonmarket institutions. Transitions of young people are influenced by several interconnected markets such as education, labor, credit, housing, and marriage. For a new life course to emerge for Middle Eastern youth, institutions and key markets must be reformed.

Dhillon and Salehi-Isfahani outline ten institutional features of Middle Eastern economies and societies that hold the potential for furthering prosperity and equity for the young generation. They argue that reforms can happen and that demographic pressures are already serving as a major impetus. They also propose principles for guiding future policies and programs. In this sense, the book ends with a meditation on not only the plights of young people, but also on ways in which public policy can improve their lives.

Notes

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1

*Generation in Waiting:
An Overview of School to Work
and Family Formation Transitions*

Representing the largest birth cohort in the history of the Middle East, the young men and women born between 1980 and 1995 are now coming of age and entering adulthood. Today, more than 100 million individuals between the ages of 15 and 29 live in the Middle East, up from less than 67 million in 1990. They make up 30 percent of the region's population and nearly 47 percent of its working-age population. Much has been promised to this generation in terms of better quality of life and greater prosperity; however, many of these promises remain elusive.

As the Middle East's youth population has grown, young people have increasingly struggled with securing critical milestones in their transition to adulthood. Across the region, education systems have failed to prepare young people for changing roles in the economy. Labor market outcomes have remained poor, with young people enduring high rates of unemployment and low-quality jobs. Delays in marriage and family formation are now common in many countries. Moreover, with limited progress in improving the quality of education and job creation, the challenges that afflict today's young people now risk being passed on to future generations.

Young people in the Middle East experience different economic, political, and social realities depending on where they grow up. Obvious distinctions include the extent to which countries rely on hydrocarbon rents, their integration with the global economy, and their levels of stability and peace. Furthermore, youth is not a homogeneous social category: gender and family income significantly influence young people's transitions. This heterogeneity is captured well by the eight country studies presented in this volume.

In this chapter, we provide a framework for understanding the common challenges facing the Middle East's young generation and how institutional reforms can lead to substantial improvements in their lives. The chapter begins by analyzing how life courses within Middle Eastern societies have been transformed in response to economic and social changes in the twentieth century. It then focuses on the interrelated challenges facing young people in their education, employment, and family formation transitions. Next, we illustrate how the institutions that govern education systems, the labor market, and family formation have failed to mediate young people's transitions, leaving them in essence as a generation in waiting. In the final section, we outline guiding principles for improving transitions for young people across the Middle East.

The Middle East's Three Life Courses

One useful way to understand the lives of young people in the Middle East is to place the temporal phase of "youth" in a larger life course framework. A life course comprises critical transitions and trajectories such as schooling, career, family, and retirement. This framework recognizes human development as a lifelong process that is shaped by individual agency, the time and place in which individuals come of age, and the opportunities and constraints of their environment.¹ Furthermore, success in one's life is cumulative: opportunities are amplified or diminished by development outcomes in early life, especially during adolescence and youth.

The life course perspective, as it applies to young people in the Middle East, focuses largely on the school-to-work transition and the work-to-family formation transition. It draws attention to the prevailing institutions in the education system and to markets for labor, housing, and credit as well to social norms, all of which shape young people's life course.² To understand the exclusion of young people, it is critical to assess how life courses, and the key institutions that support these life courses, have evolved over time in the Middle East in response to demographic pressures, and periodic prosperity and economic downturn.

Today, the Middle East is characterized by three major life courses: the traditional life course, the welfare life course, and the post-welfare life course.³ These life courses coexist, undergoing ebbs and flows in response to external and internal changes over time and with increases in population. The traditional life course has declined as a result of economic advancement; the welfare life course remains dominant though increasingly inadequate and

the post-welfare life course is underdeveloped. The growing incongruity between these life courses, and the related failure of existing institutions to mediate the transitions of young people, have paved the way for a generation in waiting.

The Traditional Life Course

In the traditional life course, found mostly in rural Middle Eastern societies, individuals move directly from childhood into adulthood, a transition mediated by family and the community and one that presents young people, especially women, with few economic opportunities. This traditional life course still prevails in poorer, more rural parts of Middle Eastern countries though is less widespread as a result of economic development and modernization.

Access to formal education is often a privilege of the few because of a lack of schools in local communities and because of poverty, which pushes individuals into employment at a young age. Where primary education is available, it is largely taken up by boys rather than girls. Young men seeking jobs are limited largely to the family farm or trades in the local community; long job searches are rare because families pass on vocations and skills from one generation to the next. Young women experience different transitions: they marry early, and their roles are confined largely to family and household responsibilities, occasionally accompanied by some wage work to supplement household income.

This traditional life course characterized much of the Middle East at independence. It has been estimated that in 1950 nearly 85 percent of the region's population lived in rural areas. Educational attainment was low and illiteracy prevailed. In 1939, for example, adult illiteracy in Egypt was estimated at 99.5 percent and only 23.3 percent of 5- to 19-year-olds were enrolled in school.⁴ Even today, in countries like Morocco and Yemen, the education transitions associated with the traditional life course continue, particularly in rural areas. The adult illiteracy rate is still 47.7 percent in Morocco and 45.9 percent in Yemen.⁵ Overall, however, investments in education, poverty alleviation, and improvements in macroeconomic conditions over the past five decades have made the traditional life course less pervasive, replaced largely by the welfare life course.

The Welfare Life Course

The economic development of the Middle East following independence paved the way for the welfare life course wherein state institutions emerged

as the dominant transition structures. States provided a growing population with free education, stable employment in the government and public sector enterprises, and expanding social protection mechanisms. These institutions enabled the postindependence generation to secure higher levels of socio-economic welfare, institutionalizing stable transitions for many individuals.

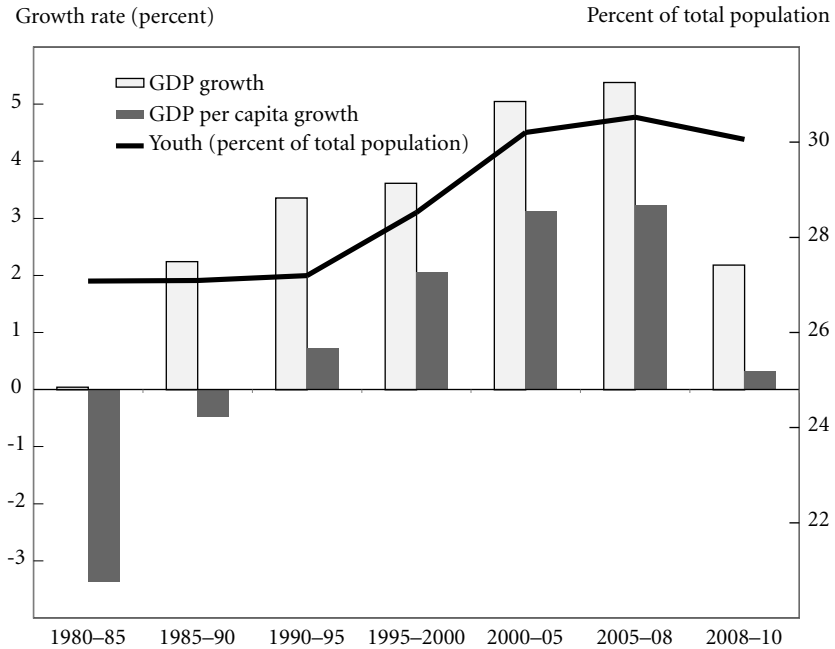
In the context of the welfare life course in the Middle East, educational access increased dramatically. Net enrollment in primary education expanded from 62 percent in 1970 to 85 percent in 2003, and the gender inequalities in education inherited from the traditional life course were gradually erased.⁶ Moreover, public sector employment guarantees for high school and university graduates in countries like Egypt and Morocco encouraged young people, especially from modest backgrounds, to stay longer in school.⁷ Strong job protection provided security and steady incomes for workers and their families.

The ability of governments in the region to provide these resources was bolstered by oil production, whether directly by export revenues or indirectly by the return of workers' remittances, investments, and direct aid. However, the oil price crash in the mid-1980s and the subsequent decade-long period of economic stagnation led to a retrenchment of state institutions. At the same time, the Middle East experienced the initial increase in youth population (figure 1-1). This growing youth population imposed rising pressures on the region's education systems and led to an unprecedented growth of labor supply.⁸ Together, economic stagnation and rising demographic pressures diminished the capacity of governments to sustain the welfare life course.

Many Middle Eastern countries responded to these pressures by embracing structural adjustment and economic reforms designed to scale back state-led institutions and to stimulate private-sector-led growth. However, these reforms have been uneven and selective, retaining the embedded institutions and interests that developed under the welfare life course. Even today, Middle Eastern economies are still defined by highly centralized, government-subsidized education systems that are proving inflexible in providing skills to prepare young people for the changing global economy. Despite some contraction, the public sector continues to dominate many economies in the region and remains the workplace of choice for graduates. The ability of the private sector to grow and create jobs has remained limited, in large part because of restrictive regulatory environments.

In the context of changing demography and globalization, the welfare life course and its institutional arrangements are advancing the interests of some incumbents (adults) while excluding the majority of young citizens. As the Middle East faces a competitive global economy and huge numbers of

Figure 1-1. *The Youth Bulge and Regional Economic Performance, 1980–2010^a*



Source: International Monetary Fund; United Nations, World Population Prospects: 2008 Revision.

a. Data are for Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Libya, Morocco, Oman, Saudi Arabia, Syria, Tunisia, and United Arab Emirates.

unemployed graduates seeking salaried jobs, these institutions provide the wrong incentives and hinder economic development.⁹ To date, the economic performance of Middle Eastern countries has been poor and volatile, and the region lags behind other regions such as East Asia.¹⁰ This poor economic performance can be attributed partly to the lack of reforms and the related failure to move beyond the welfare life course. As a result, even the recent period of economic renewal between 2002 and 2008 did not sufficiently improve the transitions of young people.¹¹

The Post-Welfare Life Course

In the post-welfare life course, young people’s transitions are based on choice, better information, and the right signals from institutions. The education transition is built on acquiring a broad range of skills as opposed to

simply the degrees necessary for public sector work. Work transitions are flexible and provide productive careers in the private sector rather than government jobs. Access to capital allows young people to build credit reputations that can be leveraged toward marriage and family formation. These critical transitions are mediated by well-functioning markets, the private sector, and governments.

Because the Middle East is still transitioning from state-run to market economies, this new life course has yet to fully emerge. As a result, young people's transitions have become more complex, even stalled. They are increasingly moving from primary to secondary and higher education, but with weak skills formation. The emergence of the informal sector and the decline of the public sector have paved the way for more uncertain and unstable transitions. This is especially the case for women, who are gaining more education but participating less in the labor market than their male counterparts. Family formation is involuntarily delayed, and young people are likely to reside longer with their parents.

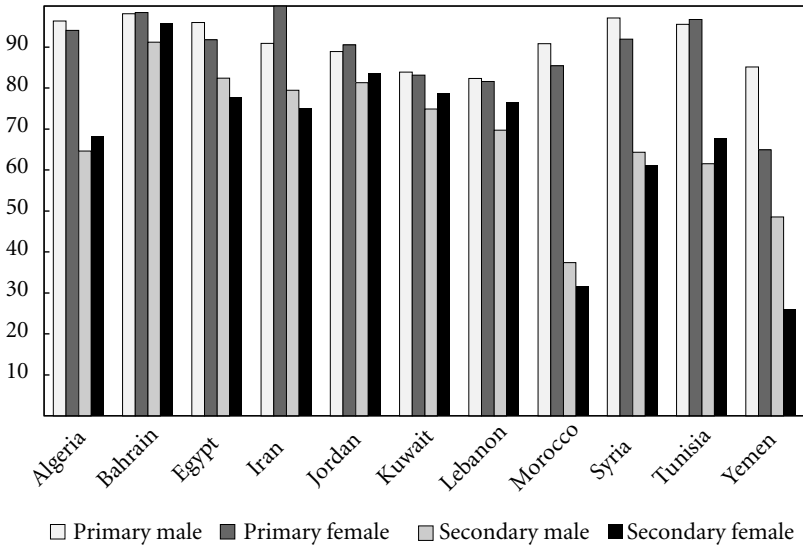
This leaves young people in the situation of waiting to become full adults—a state of *waithood*—struggling to resolve uncertainty on a number of interrelated fronts: attaining the right education, securing a quality job, and finding ways to afford the costs of family formation.¹² Failure in one transition spills over into the next. Aside from waiting for these varying opportunities, young people are also waiting for a larger change: for a different set of institutions to emerge that can support a new life course. Most young people do not want a traditional life course; they desire the stability and certainty of the welfare life course that is no longer available to many of them; and public policy and institutions have not sufficiently evolved to help forge a new life course.

The Stalled Transition to Adulthood

In the transition to adulthood, young people are engaged in multiple, interrelated searches: for education and training that will improve their job prospects; for employment that will bolster their income and long-term career prospects; and for personal happiness and success through establishing their own families and independent lives, aided by access to housing and credit. However, young people face several obstacles in securing these critical transitions.

Figure 1-2. Net School Enrollment Rates in the Middle East, 2007^a

Enrollment rate (percent)



Source: World Bank, *World Development Indicators* (Washington: 2008).

a. Data are for 2007 or most recently available data.

The Education Transition: Greater Access, Lower Quality

As part of the legacy of the welfare life course, the countries of the Middle East have invested heavily in education and human capital development. Over the past five decades, the free provision of education has contributed to a massive expansion in educational access. In recent years, investment in public education has amounted to nearly 5 percent of GDP and 20 percent of government expenditure regionally, comparing well with other developing regions.¹³ In turn, the region has seen considerable advances in educational attainment: primary education is now nearly universal across the region, and secondary enrollment has risen to nearly 75 percent on the whole (figure 1-2). Importantly, educational attainment for women has improved, even surpassing that of men in several countries.

Despite these investments in educational attainment, high dropout and repetition rates remain a concern, especially among low-income students, and low enrollment rates are common in rural areas. Further, deep inequities remain in access to higher education. Students from low-income back-

grounds are more likely to end up in vocational education and training (VET) than in the academic tracks. In Jordan, 95 percent of those in the academic secondary track are from middle- and high-income backgrounds.¹⁴ This suggests that the region's educational systems are failing to promote equity in access even as they expand investments in underlying infrastructure.

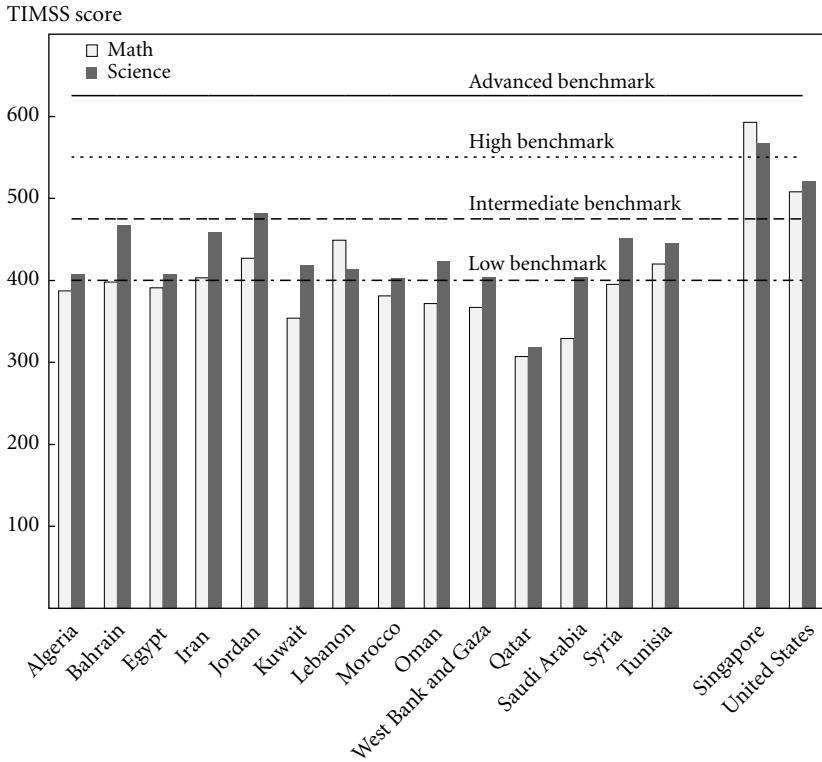
Educational systems in the Middle East suffer in regard to the quality of education, as illustrated in the accompanying chapters in this volume and reported by international institutions.¹⁵ Evidence of the low quality of education in the region can be found in the low average scores for Middle Eastern students on international standardized examinations such as the Trends in International Mathematics and Sciences Study (figure 1-3).¹⁶

Although most countries in the region have engaged in efforts at educational reform, many key features of regional school systems—the extent to which they are centralized, the level of accountability, the curriculum and pedagogy, and tracking mechanisms—have not been reformed sufficiently to create more fulfilling and productive education transitions. Continued dependence on rote methodologies places little emphasis on teaching critical and analytical skills. A lack of computers and other technology in the classroom means students do not learn needed technology skills. Moreover, teacher quality is limited by inadequate training in modern pedagogy, low salaries, and a lack of performance incentives, especially at the secondary education level.

High investments in expanding secondary education have proven ineffective because standards have been poor.¹⁷ These quality concerns extend beyond the traditional academic track to vocational education and training, despite an increase in government investment in this alternative to academic education. VET programs across the region, mostly operated by government entities, are highly fragmented in their administration. For example, in Egypt, there are 1,237 vocational training centers operated independently by 27 separate ministries or authorities.¹⁸ Training remains largely divorced from the needs of the private sector; not only are curricula outdated, but there are few instances in which private sector representatives play a role in curricula or program design. Thus, VET programs have developed a reputation across the region as a poor alternative to traditional education.

The low quality of education in the region has undermined the ability of young people to successfully transition to adult life. Faced with more complex pathways to employment and family formation, youth have been disempowered as future citizens, parents, and workers by the poor quality of

Figure 1-3. TIMSS Results from Participating Middle Eastern Countries, Plus United States and Singapore, 2007^a



Source: Ina V. S. Mullis and others, *TIMSS 2007 International Mathematics Report* (Boston College, Lynch School of Education, TIMSS and PIRLS International Study Center, 2008); Michael O. Martin and others, *TIMSS 2007 International Science Report* (Boston College, Lynch School of Education, TIMSS and PIRLS International Study Center, 2008).

a. The scale international average for TIMSS results is 500.

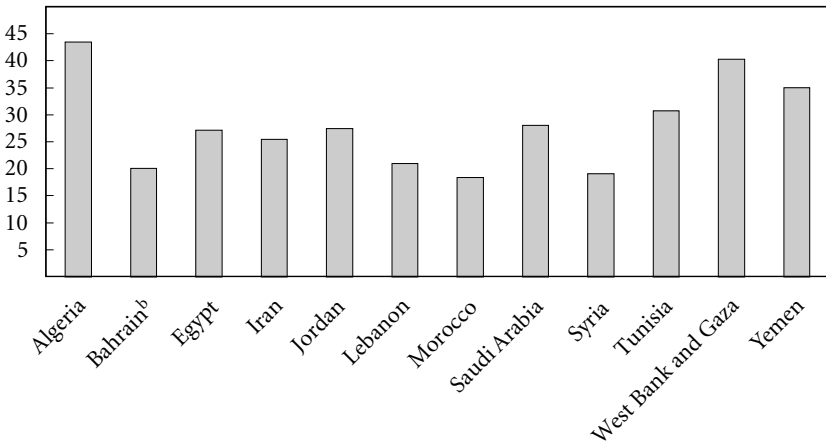
the educational system. This imposes costs on Middle Eastern economies: poor quality of education is associated with lower earnings for workers; a shortage of skilled workers undermines economic growth; and policy failures to improve educational quality are likely to reinforce existing inequities across socioeconomic background and gender.

The Transition to Work: Poor Labor Market Outcomes and Worsening Job Quality

The incongruence between the welfare life course and the post-welfare life course is experienced most severely by young people in the labor market.

Figure 1-4. *Youth Unemployment Rates in the Middle East, 2006^a*

Unemployment rate (percent)



Source: Authors' calculations based on official data.

a. All figures reflect unemployment rates for those aged 15–24 for 2006 or most recently available year.

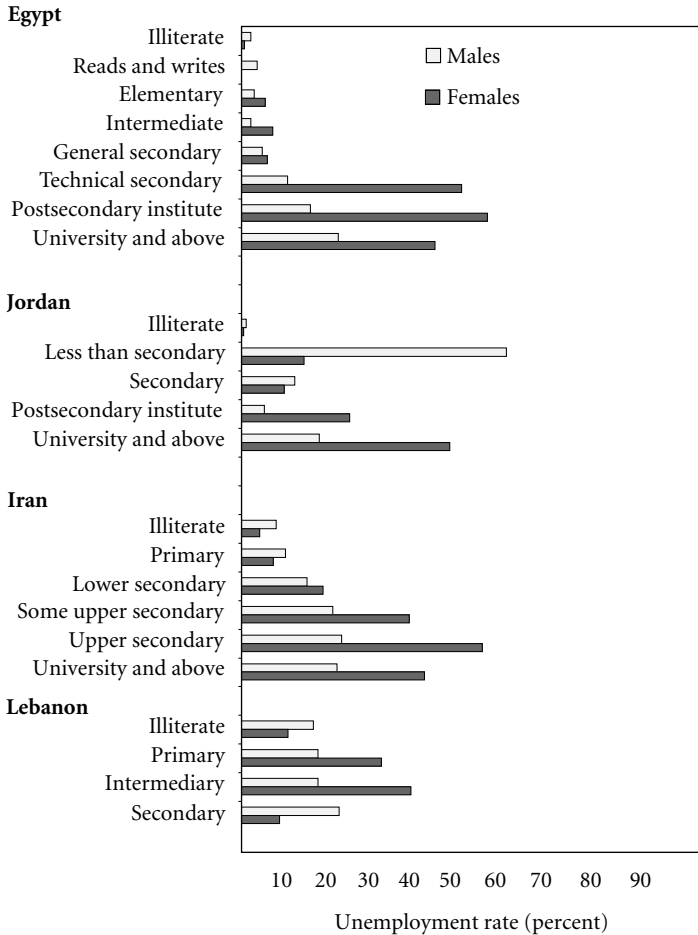
b. Data for Bahrain include nationals only.

Poor labor market outcomes—unemployment, underemployment and stagnant wages—have imposed themselves persistently on regional economies since the early 1990s.¹⁹ Such outcomes are demonstrated most boldly by regional unemployment rates. By 2000 total unemployment had reached a peak of nearly 15 percent of the region's labor force. Despite a return to high rates of growth in more recent years, unemployment has remained high, estimated in 2008 at nearly 11 percent.

The worst outcomes have been experienced by youth, reflecting specific problems in the ability of young people to gain a foothold in the labor market. Currently, the youth unemployment rate (for those between the ages of 15 and 24) in the Middle East averages between 20 and 25 percent, while rates higher than 30 percent occur in several countries (figure 1-4). In fact, unemployment is largely a youth problem; young people make up more than 50 percent of the region's total unemployed workers, a rate that goes as high as 77 percent in Syria. Many of these unemployed, often first-time job seekers, wait for years to find a position. In Egypt, for example, average unemployment duration for new entrants is nearly two and a half years; in Iran and Morocco, it is closer to three years.

Education provides no guarantee against unemployment. In fact, in several countries unemployment rates are highest among youth with relatively

Figure 1-5. Youth Unemployment by Educational Attainment, Various Years



Source: Authors' calculations based on official data. Data for Lebanon and Iran are from 2004. Data for Jordan are from 2007. Data for Egypt are from 2006.

high levels of educational attainment (figure 1-5). In total, those with secondary degrees and higher, who make up the majority of young labor market entrants in several countries and who understandably hold higher expectations in regard to employment and job quality, tend to have higher unemployment rates and unemployment durations than those with less education.

Even as young people's labor market prospects have worsened in the Middle East, hardly any research is available on the short-term and long-term

effects of early unemployment. Evidence from developed countries, however, shows that experiencing unemployment early in one's life has two major effects. First, it undermines immediate well-being through the loss of income. Second, early unemployment may adversely affect long-term economic prospects, with those facing long spells of unemployment at an early age experiencing depressed future wages or repeated incidences of unemployment.²⁰ In the Middle East, these effects might be deeper given that labor markets in the region are more rigid and that jobs are harder to find than in Europe and the United States. Once they secure employment, young workers are more likely to be confined to low-wage and low-skill jobs. Opportunities in the public sector—the traditional source of “good” jobs—have been compressed because of budget constraints, reduced rates of hiring, and the lack of turnover of older workers in the sector. Meanwhile, the formal private sector accounts for a relatively small share of total employment even in the context of higher rates of economic growth seen in recent years.

The lack of secure opportunities in the formal public and private sectors means that a majority of new entrants in the labor market are finding employment in the informal sector. For example, nearly 32 percent of jobs for new entrants in Egypt in 2005 were found in the informal sector, up from 21 percent in 1990. This is particularly the case for those youth who have not secured higher education. Often informal jobs are of poor quality. They generally offer low pay in micro- and small enterprises and tend to be short term or seasonal in nature. Moreover, they provide little in the way of training or on-the-job skills development that can be leveraged by young people toward the development of stronger career paths or to gain access to the formal sector. In addition, such informal jobs provide little in the way of job stability or protections that are offered to contracted workers in the formal sector.

The informal nature of one's first job can also have a lasting impact on future employment prospects. In Egypt, for example, only 11 percent of young Egyptians who find their first jobs in the informal sector are able to secure formal second jobs.²¹ Conversely, only 7 percent of those with formal first jobs move on to informal second jobs. Well-educated, urban men who start out in the informal sector show some mobility and are most able to secure better jobs in the future. On the other hand, young men with low levels of educational attainment and those living in rural areas are less able to transition to better jobs. Similarly, young women have lower mobility in their transitions between jobs and are more likely to be trapped in the informal sector once they have started an informal job.

The increase in informality has been matched by a strong deflation of the value of academic credentials across the Middle East. While young people have been gradually securing higher levels of education, returns to education—the measure of an individual’s wage gain from investing in more education—have declined significantly.²² Past returns to education had been quite high across the region, a factor most likely driven by the strong role of the state in employing secondary and university graduates within the welfare life course. With the withdrawal of public sector employment guarantees, the partial deregulation of formal private sector employment, and rising informality, returns to education have been minimized. Thus, young people in the Middle East have seen their personal investments in education decline in value as they enter the labor force.

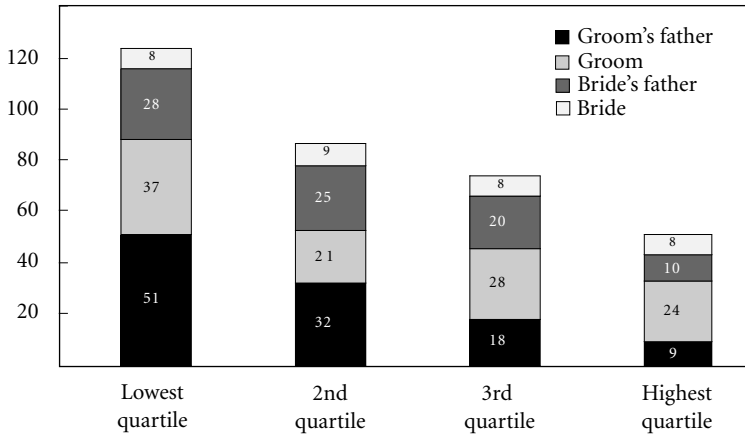
Importantly, young women face the most difficult school-to-work transitions in the Middle East. While female labor force participation rates are rising, they are the lowest of any region in the world: only 30 percent of 15- to 29-year-old women are participating in the labor market. The high rate of inactivity is partially driven by cultural norms and women’s own choices to focus on their roles as caretakers; however, the choice to stay out of the labor market is often the result of frustrations at poor labor market prospects. Those who do choose to enter the labor market face difficult prospects: female unemployment rates in the region are generally double those of men, and waiting periods to secure a job are longer for women. When they do find work, women face intense competition in a more limited number of sectors. This competition depresses their wages, giving rise to the region’s well-documented gender wage disparities.²³

*Transition to Family Formation:
Delayed Marriage and Housing Constraints*

With poor labor market outcomes, young people in the Middle East are finding that other steps toward adulthood, especially those related to marriage and family formation, are becoming more difficult. While early marriage persists in poorer, rural areas where the traditional life course is more prevalent, the general trend is toward a delay of marriage. Contrary to common assumptions, young men in the Middle East have the lowest rates of marriage in the developing world. Only 50 percent of Middle Eastern men between the ages of 25 and 29 are married.²⁴ Although the average age of marriage for young women in the region is lower than that of men, similar trends prevail in regard to delayed marriage.

Figure 1-6. *Wedding Costs by Income Quartile in Egypt, 2000–04*

Months of earnings



Source: Diane Singerman, “The Economic Imperatives of Marriage: Emerging Practices and Identities among Youth in the Middle East,” Middle East Youth Initiative Working Paper 6 (Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2007).

In part, the delay in marriage stems from young people staying longer in education. This has had positive development effects, especially for young women, and has contributed to declines in fertility. However, marriage remains an important rite of passage to adulthood, and an involuntary delay in marriage is a barrier to full social inclusion. This may be particularly true in the Middle East, where the continued cultural emphasis on family marks marriage as a social expectation. That sexual relations outside of marriage remain strictly taboo in the region adds to the sense of frustration among youth in regard to delayed marriage.²⁵

THE HIGH COSTS OF MARRIAGE AND HOUSING. Among the most important barriers to marriage are its high cost and the related rise in expectations of independent living upon marriage. For example, one estimate puts the average nominal costs of marriage in Egypt (including housing, furniture and appliances, dowry and gifts, and celebration costs) at 32,329 Egyptian pounds (\$6,800).²⁶ Traditionally, the groom bears the weight of these costs; given average incomes among young men, the average groom in Egypt must save all of his earnings for twenty-nine months to be able to afford marriage. In addition, the groom’s parents contribute the equivalent of fourteen months of income. The savings burden is significantly higher for those with lower incomes (figure 1-6). Among the poorest quartile of the

Table 1-1. *Housing Costs and Mortgage Lending in the Middle East, Various Years*

Country	House price-to-income ratio	Rent-to-income ratio	Housing credit ^a (percent)
Algeria	8.1 (2002 est.)	10.0 (1998))	6.5 (2001)
Egypt	4.9 (1998)	20.0 (1998)	7.4 (1993)
Iran	9.0 (2002)	20.0 (2002)	n.a.
Jordan	6.5 (1998)	16.7 (1998)	19.0 (1999)
Lebanon	9.0 (2002)	n.a.	9.0 (1995) ^b
Morocco	9.2 (1998)	5.0 (1998)	13.0 (2001)
Tunisia	5.2 (1998)	20.3 (1999)	10.4 (2000)
Yemen	10–17 (2000)	25.0 (2000)	n.a.

Source: World Bank, *The Macroeconomic and Sectoral Performance of Housing Supply Policies in Selected MENA Countries: A Comparative Analysis* (Washington: 2005).

n.a. = not available

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

b. Includes credit for construction.

population, marriage contributions for the groom and his parents are equal to an average eighty-eight months of income, meaning that young men in this category must save for at least seven years in order to afford the costs of marriage.

Housing is one of the largest costs related to marriage, and as a result its high costs drive trends toward delayed marriage. Purchasing a home in the Middle East is expensive. Whereas individuals in developed countries spend an average of thirty months of income to cover the full cost of a home, costs for a home in the Middle East range from about sixty months of wages in Egypt to as much as two hundred months of wages in Yemen (table 1-1).²⁷ The lack of availability of low-income housing and starter homes in the region adds to the pressures on younger people as they are just starting out. Further, individuals have few means to leverage future earnings to purchase housing. Mortgage-based lending is not widespread in the region, and the credit bureaus needed to support a viable mortgage industry are only just being established.

In many countries in the region, the rental market does not provide an affordable alternative to the purchase of housing because there is a marked shortage in the supply of rental properties. This shortage has been driven by regulations that control the ability of landlords to increase rents at the conclusion of a rental contract. In Egypt, for example, rent control laws put in place in the 1960s fixed rents in nominal terms to rates prevailing at the

time and guaranteed indefinite occupancy rights for tenants.²⁸ As a result, landlords began keeping properties vacant or requiring large, up-front payments from new tenants. For young prospective renters, renting a property requires significant amounts of start-up capital, the same problem they face in trying to purchase a home.

The lack of marriage opportunities and housing options leads many young people to continue living with their parents well into their adult lives. This parental support provides a valuable social safety net in the context of poor labor market outcomes, but it reinforces a relationship of economic dependence for emerging adults. It may raise the reservation wages of young people seeking jobs, leading to higher levels of voluntary unemployment. For those youth unable to afford the time costs of waiting for a good job, familial support may be subsidizing low wages and poor job quality. At the same time, delayed household formation can itself become a barrier to employment and labor mobility because youth are confined to live where they have the support of their families rather than where the most optimal job opportunities may be found.

NEW SOCIAL CHALLENGES STEMMING FROM THE DELAY IN MARRIAGE AND HOUSEHOLD FORMATION. As the transition to marriage and family formation slows in the Middle East, new challenges are emerging related to alternatives to marriage. Dating has become more common, although most of these relationships are maintained secretly. There has also been a rise in controversial alternative forms of marriage such as *'urfi*, *misyar*, and *mut'a*.²⁹ Like dating relationships, such marriages are often entered into without the knowledge of family members or the community, and they are generally temporary by design.³⁰ While such relationships increase the opportunity for young people to form adult relationships with members of the opposite sex, they are posing new public policy challenges.

One issue of increasing concern is the sexual health of young adults in the region. While the incidence of HIV/AIDS and other sexually transmitted infections remains relatively low in the Middle East, evidence suggests that these diseases are becoming a growing public health concern. According to the United Nations, an estimated 380,000 adults and children are living with HIV/AIDS in Arab countries, with nearly 40,000 persons newly infected with the disease in 2007.³¹ The number of new cases suggests a growing problem. The risks are compounded by the secretive nature of sexual relationships among young people in the Middle East and by the fact that youth remain ill informed about sexually transmitted infections, contraception, and reproductive health.

Alternatives to traditional marriage also pose particular problems related to family law and the economic welfare of women entering these relationships and the children that may be born to them. Children born to traditional marriages are provided economic support and legal status as dependents of the father and mother. For those born to nontraditional marriages or outside of a legal marriage, this is not necessarily the case. Until recently, for example, children born to *'urfi* marriages in Egypt were not eligible for Egyptian citizenship or government benefits.³² The growing incidence of such relationships and the increasing number of children that result from such unions are posing challenges to the legal institutions that govern family law and legal status.

Institutions: Impediments to the Post-Welfare Life Course

The critical transitions for youth described above are embedded in the institutions that govern related markets. These include formal institutions such as education tracking mechanisms and regulations that govern relationships between employers and employees, as well as informal institutions such as cultural norms and social and familial expectations.³³ Together, these institutions generate the signals and incentives that shape individual decisions and choices. They serve as the “transition structures” that mediate the movement of individuals from one stage of life to the next.³⁴

In the Middle East, the prevailing institutions in the education system and labor, housing, and credit markets have not sufficiently adapted to demographic changes and globalization. The institutional structure with which young people now engage in the Middle East is not that of the post-welfare state but reflects the norms and regulations of the welfare life course. In this section, we describe how particular institutional arrangements are working against the welfare of young people and impeding the emergence of a post-welfare life course (table 1-2).

The Nature and Impact of Labor Market Institutions

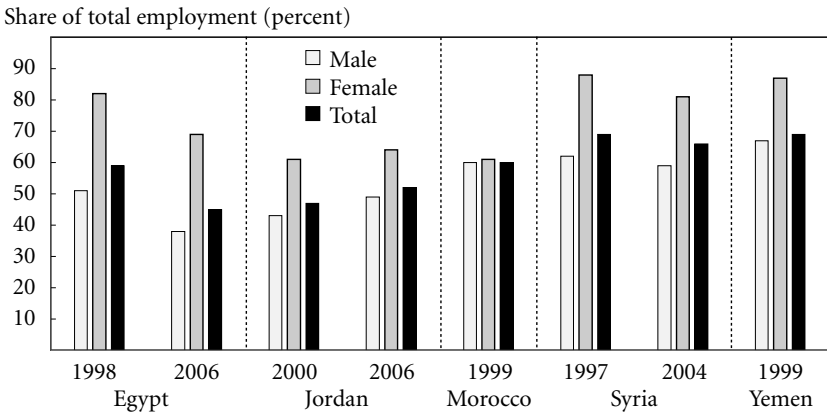
The behaviors of economic actors in the labor force—including new entrants, older established workers, firms, and the government—are determined largely by formal labor market regulations and dominant institutional structures. Most important for the Middle East, these include the continued dominance of the public sector in employment and the restrictive regulatory environment imposed on private firms.

Table 1-2. *Institutional Impediments to a New Life Course in the Middle East*

<i>Transition</i>	<i>Institutional feature</i>	<i>Effects on young people</i>
Education	Highly centralized education system	Contributes to low educational quality (in terms of curricula and pedagogy) and skills mismatch
	University admission policies	Promotes rote memorization over investment in skills
	Tracking mechanisms	Undermines value of vocational education
Work	Dominant role of the government in employment provision	Contributes to long durations of unemployment because youth wait for government employment
	High employment protection	Protects older workers and reduces opportunities for young workers Makes firms less likely to hire new, younger employees (lower turnover)
		Contributes to an increase in informal enterprises where young people have fewer opportunities for human capital development
Marriage and family formation	Marriage contracts and high marriage costs	Contributes to phenomenon of delayed marriage among young men who cannot afford the high costs of marriage
	Rent controls	Limits access of first-time renters to affordable housing
	Absence of mortgage facilities	Prolongs dependency on parents and failure to accumulate physical assets (for example, housing)

The public sector continues to play a significant role in structuring work transitions. Governments across the region have reduced the size of public sector employment, but they still employ a significant share of the region's workforce, particularly secondary and university graduates (figure 1-7). Given the relatively high wages, job security, attractive benefits, and pension coverage that come with public sector employment, young new entrants

Figure 1-7. *Government Employment as a Share of Total Employment among Secondary and University Graduates, Selected Countries, Various Years*



Source: Official sources.

continue to queue for public sector positions despite the creation of fewer new positions in this sector and a lack of turnover among older workers.

Formal private sector employment has failed to emerge as a strong alternative for young workers, largely because of the restrictive regulatory environment imposed on formal private sector firms in the region. Although indexes measuring labor market rigidity show that some Middle Eastern countries have made improvements in recent years, the region as a whole maintains higher levels of labor market regulation than other regions (table 1-3).

The rigidity of these regulations in the formal private sector affects young people’s work transitions in several ways. Mostly notably, rigid regulations on hiring and firing workers raise labor market costs for private firms. In response, companies prove resistant to the perceived risks of hiring young, untested new entrants who lack a record of work experience and productivity. Rigid regulations also lower job turnover among established workers, limiting the number of job openings for young people to those created through economic growth. This lower turnover means that young workers are unable to compete with incumbent workers.

Labor regulations also adversely affect youth employment through the link between severance payments and tenure. As severance pay increases with tenure, and tenure increases with age, older employees are more costly to dismiss than younger workers. During negative shocks to the economy and

Table 1-3. *The Rigidity of Labor Market Regulations in the Middle East, 2008^a*

<i>Country/region</i>	<i>Difficulty of hiring index</i>	<i>Rigidity of hours index</i>	<i>Difficulty of firing index</i>	<i>Rigidity of employment index</i>
Algeria	44	60	40	48
Egypt	0	20	60	27
Iran	11	60	50	40
Jordan	11	20	60	30
Kuwait	0	40	0	13
Lebanon	44	0	30	25
Morocco	100	40	50	63
Saudi Arabia	0	40	0	13
Syria	22	40	50	37
Tunisia	28	40	80	49
United Arab Emirates	0	60	0	20
Yemen	0	60	40	33
<i>Regional averages</i>				
Middle East	21	43	46	37
Africa	40	35	37	37
East Asia	19	19	39	26
Developed economies	22	26	21	23
Latin America	54	51	29	44
South Asia	14	20	62	32

Source: World Bank, *Doing Business 2008* (Washington: 2007).

a. Indexes are on a scale of 0–100, with higher values reflecting more rigid regulatory environments. Regional averages are population-weighted means of scores for the countries for which data are reported.

labor markets, young people bear the brunt of adjustment, increasing the overall gap between employment rates for young and older workers.³⁵ In this regard, several Middle Eastern countries maintain significant severance payment requirements. In Egypt, for example, mandated severance packages for established workers amount to 132 weeks worth of their final salaries.³⁶ The average is 80 weeks in Syria, 91 weeks in Iran, and 85 weeks in Morocco. The regional average is 53.6 weeks, compared to an average of 25.8 weeks for developed countries and 38.6 weeks for the East Asia and Pacific region.

Excessive regulation also drives firms into the informal economy, which means initial jobs for young people are increasingly found in the informal sector and work transitions take place therein. Informality is often associated with high tax burdens on formal private firms, the costs of which keep small

firms from scaling up their operations or formalizing their relationship with the state. In the Middle East, however, informality is more often related to the regulation of labor. Adhering to the costs of labor market regulations and faced with the burdens of high dismissal costs, smaller firms largely choose to operate outside of the regulatory environment.

During the 2002–08 period of renewed economic growth across Middle Eastern countries, a number of reforms to reduce job protection and bolster labor market flexibility in the formal sector were implemented. Egypt relaxed its labor laws in 2003 to allow firms to hire workers on temporary and renewable fixed-term contracts.³⁷ In Iran, the government passed legislation in 2003 that exempts small firms (with fewer than ten workers) from its rigid labor laws, giving them a degree of flexibility in hiring and firing.³⁸ While these reforms are meant to encourage private firms to hire more young new entrants, they often do not contribute to stable work transitions. Older, established workers enjoy the protection of open-ended contracts and stronger protections against dismissal, and young workers entering the labor market through these temporary contracts endure job insecurity.

Short-term and temporary contracts often mean less investment in training and human capital development of young workers, as well as protracted transitions to family formation. Furthermore, introducing greater flexibility in the private formal sector while maintaining job protection measures in the public sector has made the latter more attractive, reinforcing the incentive for educated youth to remain unemployed while waiting for public sector positions.

Institutions of the Education System Reinforce the Skills Mismatch

The institutions that govern the labor market play an important role in perpetuating the common problems of skills mismatch between what students learn and what employers want. Most important, the combination of a large public sector and a highly regulated private sector (both in education and employment) distorts incentives for learning and skills formation. Regional education systems continue to be geared toward providing the skills needed for public sector employment, with a focus on creating secondary and university graduates that can play functionary roles in the bureaucracy. At the same time, the influence of the private sector in driving skill formation remains limited. Not only do businesses have a minimal role in informing curriculum design, but high levels of regulation force the private sector to act like the public sector, valuing *ex ante* signals such as qualifications rather than *ex post* signals of productivity.

Furthermore, the lure of public sector employment drives the choices that students and their parents make in regard to skills formation and educational investments. The result is that nearly all students who go beyond primary education pursue the university track even though relatively few can expect to gain access to university or to secure public employment.

The design of university admission policies themselves reinforces distorted incentives for learning and skills development. Often university admission is based largely on students' scores on cumulative examinations that are designed to assess knowledge of memorized facts. This, in turn, has a disproportionate effect on school curricula, both in public and private schools; understanding the importance of this examination, these schools focus their instruction not on skills development but on the knowledge needed to succeed on the examination. Similarly, it affects how parents invest in their children's education. For example, to make up for weaknesses in the public education system, many parents invest in private tutoring, but this tutoring often entails prepping for standardized tests rather than developing a broader range of knowledge and skills.³⁹

In the presence of these institutional arrangements, efforts to develop alternative transitions of learning and skills development have proved unsuccessful. For example, despite high investments, vocational education has yet to emerge as an effective institution to mediate school to work transitions. Students resist the vocational track, preferring to secure a slot at a university. Moreover, private firms, understanding the institutional incentives that push capable students toward the university track, view vocational graduates as being the least capable youth. Moreover, private firms, understanding the institutional incentives that push capable students toward the university track, view vocational graduates as being the least capable youth, reinforcing the reputation of vocational education and training as a dead end.

Institutions of Family Formation are Inflexible and Exclusionary

Young people's transition to marriage and family formation is shaped by formal and informal institutions. Marriage contracts, which are embedded in tradition to promote the welfare and bargaining power of women, stress financial security. Marriage contracts are forward-looking agreements, with dowry and other marriage costs acting as a way of institutionalizing the exchange of resources between the two families. In the traditional life course, where kin marriages were common and families shared resources, the imperative for up-front financial assurances was weaker. In the welfare life course,

however, as marriages outside kinship became more common, education and job security emerged as critical signals of future earnings.

Today, marriage contracts continue to place high emphasis on economic security, particularly for the bride. But in the absence of clear career trajectories, young people lack the means to amass the resources needed to demonstrate the ability to provide future financial security. The response of the marriage market to this increased uncertainty has been to use up-front marriage costs as a device for screening grooms. In addition, with family laws and social customs providing men the exclusive right to divorce their wives, high dowry costs (*mahr*) paid by the grooms act as a disincentive for unilateral divorce.⁴⁰

One way young men could cope with the onerous costs of family formation is through better access to credit and housing. The role of credit markets is to allow individuals to smooth their consumption against future earnings; however, in the Middle East, underdeveloped credit markets fail to play this role. Limited access to mortgage finance means that housing is increasingly out of reach for young people.

Where young people have received assistance aimed at reducing the burdens of the costs of marriage, it is often through the welfare life course institutions. These have included the provision of government subsidies in the form of marriage grants or loans, as well as legislation that limits the size of dowries. But these interventions fail to recognize the complex social rules of the marriage market wherein high dowry costs are driven by prospective brides (and their families) trying to assess the suitability of grooms and to ensure financial security.⁴¹ In the long run, smoother family formation transitions need better credit and housing institutions and reforms to family law that provide more financial security for women, rather than assistance through more restrictive legislation or the provision of grants and low-interest loans.

Toward a New Life Course

Caught in a bind between two life courses, young people in the Middle East are struggling to build a foundation for successful lives and contribute to the development of their societies. Across the region, there is a growing recognition of the urgency of expanding opportunities for and investments targeted on young people. Efforts by governments and nongovernmental organizations offer the potential for resolving some of the long-standing youth challenges. However, if implemented without regard to the institu-

tional context, such programs may prove no more successful than past interventions.

To effectively improve skill formation, the cultivation of work experience, and the formation of successful new families, three principles should guide policy and program design.

First, many of the challenges facing young people are associated with high demographic pressures. A natural extension of this outlook is to treat these problems as passing and transient. This leads policymakers to focus on short-term and input-driven solutions, such as expanding training programs and improving educational infrastructure. Instead, policies should be long term and treat the youth bulge as a window for reform that benefits the whole of society. The goal should be to use the large youth population to prepare Middle Eastern economies for the competitive global economy.

Second, policy reforms should recognize links across sectors and the role of signals and incentives in shaping a new life course. Outcomes in education, employment, housing, and family formation are interconnected. Failure to build on these connections often undermines policy efforts. For example, many governments are promoting the role of the private sector in education while at the same time instituting above-inflation wage increases for government jobs. This has the effect of reinforcing aspects of the welfare life course in the work transition while trying to move toward a new life course in the education transition. This conflict can undermine the effectiveness of interventions or, worse, can be counterproductive in resolving youth-related economic issues.

Finally, a long-term, integrated policy reform agenda can be implemented more effectively when based on an understanding of the sequencing and interdependence of steps in the reform process. Reforms are difficult, requiring costly steps both economically and politically. However, policymakers can start at the least controversial changes and build momentum. For example, before relaxing employment protections, it is important to first create a system of income and social protection, such as an unemployment insurance program, that would provide protections for workers without imposing restrictive job protection regulations on private firms.

In addition, a number of other policy initiatives can be pursued that are politically more feasible in the short run. These include reforming university admission policies to test a broader range of skills; changing public sector hiring policies to encourage investments in skills over credentials; creating incentives in education and employment by taking experience through volunteerism into consideration when reviewing applications; and

developing credit and mortgage finance targeted at young entrepreneurs and first-time homebuyers. Together, these small steps can improve the institutional environment needed for a new life course.

Through this new life course, young people can have access to better education, enabling them to make a larger contribution to economic growth. Expanding employment opportunities can reduce poverty. As more women enter the labor market and secure quality jobs, gender inequality can diminish over time. In turn, the post-welfare life course can not only end the waiting of the current generation but also ensure that future generations are better off.

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