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THE CHALLENGE OF FULL EMPLOYMENT IN ARAB COUNTRIES

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I The meaning of "full employment"

Unemployment is often treated in a reductionist fashion, mostly restricting it to *open unemployment*. This is not the only, or the most important, aspect of the underutilisation of available labour in less developed countries. Further, standard treatments of labour underutilisation in LDCs stress *visible underemployment*.

Careful analysis of employment in such countries, however, reveals that *visible overemployment* coexists with *visible underemployment*. Yet, underemployment, particularly its "*invisible*" variety, is the most serious employment problem affecting less developed countries.

By invisible underemployment is meant a condition in which an employed person functions at low productivity, underutilises his/her skills and qualifications, or earns less than is sufficient to satisfy basic needs, according to some norm. The first aspect underpins low productivity at the level of the economy as a whole. The second results from poor articulation between the education and employment systems and reflects waste of resources. The last aspect of invisible underemployment defines one sense of poverty. The concept is complex and its measurement problematic. But, its importance cannot be overstated.

More generally, employed persons in less developed countries normally suffer many conditions that detract from their welfare. Hence, the unemployment problem in less developed countries should be formulated in terms of *quality of employment* in addition to *availability* of job opportunities. Working conditions, absence of discrimination, participation in decision-making, and freedom of association (ensuring, among other things, the rights of unionisation and collective bargaining) are factors that should be taken into consideration in a thorough treatment of unemployment in less developed countries.

Thus full employment is here taken to mean *good jobs* for all those available for work. Jobs that are productive, in which the individual utilises skills and fulfils potential for growth, under conditions consonant with human dignity, through which enough is earned to avoid poverty and degradation.

Seen in this light, unemployment is inextricably linked with poverty, in the widest sense. For the vast majority of the poor, work power is their only, or most important, asset. It is their only access to livelihood.

The *poorest* of the poor cannot afford the luxury of open unemployment and have to find some work as means of livelihood. But the consequent level of welfare could be extremely low.

A very strong link between poverty and unemployment is thus evident if we consider the low-income dimension of invisible underemployment or the miserable working and living conditions endured by the working poor. Indeed, poverty and unemployment get to be almost inseparable when the wider aspects of employment, especially having a *good* job, together with poverty as *powerlessness* are considered.

Consequently, in a context of increasing unemployment and widening poverty, particularly in societies where no *effective* social safety nets exist, the role of productive and gainful employment as the conduit out of poverty gets to be crucial.

II Heterogeneity of Arab employment conditions

The Arab region comprises quite a heterogeneous group of countries, both in terms of socio-economic structure and the nature of unemployment.

On one hand, the six oil-rich GCC countries are major labour importers. Having been, to varying degrees, generous welfare states, these countries have been undergoing economic strains as a result of the declining fortunes of the international oil market. One casualty of the economic troubles has been the abrogation of the right of nationals to guaranteed government employment-together with a lucrative compensation package.

But about 90% of the Arab population reside in countries outside the GCC. This is also a very heterogeneous lot. On the human development index, in 1998, they include some at the top of the “medium” level countries as well as some near the bottom of the “low” tier. Nevertheless, the nature of the unemployment problem in these generally “poor” countries is rather similar. This variety renders a unified treatment of unemployment in Arab countries extremely difficult.

For the past twenty years, countries of the region have been, to one degree or another, undergoing a capitalist restructuring process under “structural adjustment” programmes- generally guided by the international financial institutions. Sudan, on the other hand, underwent the full gamut of capitalist restructuring at times without formal links with IMF or the World Bank. Tunisia and Morocco, and until recently when growth estimates were radically revised down Jordan, have been acclaimed as success stories by IMF and The World Bank (which I think is at best qualified). The Egyptian economy is widely acclaimed to have successfully completed the prescribed stabilisation phase and is, by some accounts, poised to embark on a solid growth trajectory.

Even Algeria receives an international nod of approval on macroeconomic policy.

These “economic” transformations have resulted in varying degrees of societal change with far-reaching *negative* implications for employment and poverty, especially in the case of non-GCC countries.

III The information predicament

It is probably fair to say that, with the exception of macroeconomic data required by international financial organisations, data availability is becoming patchy; data quality is generally poor, and perhaps deteriorating; and comparability among Arab countries is hardly attainable.

In particular, the study of employment in Arab countries is severely constrained by the scarcity of high quality, recent and comparable data, especially outside the borders of the countries concerned. International data sources are not helpful on this score either. These sources are rather scant on recent data for Arab countries and sometimes tend to artificially homogenise basically incomparable information.

Comparable, high quality, data on unemployment in Arab countries in general are getting to be increasingly hard to find. Assessing a most basic parameter such as the rate of unemployment across the Arab region at a recent point in time, let alone the time trend, in a comparable manner, has defeated international organisations no less than the ILO and the World Bank. There essentially is no data on open unemployment since 1995.

That this paper turns to the case of Egypt for most specific information was forced by relatively easy access to data than for other Arab countries. Luckily, Egypt is large enough, and its economic structure sufficiently varied, to make it an interesting and important case. Nevertheless, even in the case of Egypt, the information base is woefully insufficient for a thorough analysis of unemployment.

Seen in a different light, lack of high quality, up-to-date and comparable, information on various types of unemployment can be taken as a sign of lack of government concern for unemployment, let alone a commitment to attain full employment. Why this is the case will be taken up later on.

IV Extent of "unemployment" in Arab countries

Unemployment is estimated to have been mounting in Arab countries. To the extent made possible by external demand, employment outside the domestic economy has also become a structural feature in many countries of the region.

Both labour migration and unemployment are outcomes of the breakdown of mechanisms resorted to in the past to absorb labour "released" from agriculture- the traditional sector of employment- which was not accommodated in the "modern" sector as expected.

While the educated segment of the labour force was absorbed by the public sector by design, others were drawn into the informal sector by default. Since the early 1980s, however, both mechanisms have not been able to clear the labour market at *high, and increasing, levels of productivity and real wage*.

Naturally, members of the labour force who cannot find employment in the domestic economy or abroad join the ranks of the unemployed. Labour migration had probably levelled off prior to the 1990/91 Gulf crisis. Hence, unemployment has been on the rise in most Arab countries, and it is expected to grow even further in the future.

In *Egypt*, for example, the rate of unemployment has been the subject of a controversy. The Labour Force Sample Survey (LFSS) indicates a steady, but slow, rise in the overall level of unemployment since the mid 1970s. According to the LFSS unemployment approached 11% in 1995. However, the survey is known to suffer shortcomings, adjusting for which corrects the *rate* of unemployment upward by 2-4 percentage points in the period 1990-1995.

Regardless of debates over the actual level of unemployment, there is agreement that open unemployment in Egypt has become "structural", or "organic", with grave social and economic consequences.

But more significant than the level of unemployment is its composition. Available data show that the vast majority of the unemployed is educated youth entering the labour market for the first time. This resulted from the decision to discontinue guaranteed employment of such graduates in the government and public enterprise sector while the private sector generated few new employment opportunities.

Unemployment rates are highest for graduates of intermediate education and next among graduates of higher education (taking employment as a criterion, this indicates a negative social rate of return to education).

The unemployment rate for females is at least twice that of males, and the poor suffer higher levels of unemployment.

Unemployment data in other Arab countries are generally more deficient than in Egypt. Estimates of the level of unemployment in other Arab countries in the 1990s include: 6% in Syria, 11-21% percent in Morocco, 12% in Yemen, 15% in Tunisia, 16% in the north of Sudan, 17% in Jordan, 21% in Algeria, 33% in Iraq, and 18-51% in the West Bank and Gaza. Note the particularly high rates

for Algeria, Iraq and the West Bank and Gaza, the three hottest spots in the region.

Even in the rich GCC states, governments are known to have been confronting the problem of finding employment opportunities for new entrants into the labour force, particularly educated women.

For the Arab world as a whole, an overall open unemployment rate of at least 15% around 1995 seems reasonable. This corresponds to more than 12 million unemployed persons, most of them poor (often educated) youth.

The evidence is that both *visible* underemployment and overemployment are extensive, belying a labour market out of balance in an environment of economic stagnation.

Unfortunately, it is in the crucial area of invisible underemployment that the information base on employment is weakest in less developed countries, Arab states included. All signs however, indicate that invisible underemployment is rampant in Arab economies but precise measurements are rare.

An attempt at approximating the level of invisible underemployment in Egypt near the end of the 1980s resulted in estimates of various aspects of the phenomenon ranging between ten percent and two thirds of the employed.

For the region as a whole, output per person is estimated to have declined since 1980 and labour productivity today is roughly the same as in 1970.

Though the information base is deficient, it is clear that, with varying degrees, real earnings have plummeted throughout the region, which contributes to increasing poverty.

Poverty in general is estimated to have become massive, especially in rural areas, and is generally expected to be on the rise. Tunisia seems to be an exception but not as glorious a success as hailed by the international financial institutions. Morocco is even less an exception.

The current climate of deepening socio-economic crisis in the region gives unemployment a sinister makeup. Insofar as it affects especially the poor, and often educated, youth in a context marked by initially low levels of social welfare, virtually no unemployment compensation and worsening distribution of income, wealth and power, unemployment is bound to have far-reaching social and political consequences.

The challenge of job creation is bound to become even more serious with time. If we add to the present pool of the openly unemployed future labour market entrants at a modest annual growth rate of 2-3 percent of the labour force, the huge level of required job creation poses an awesome challenge for Arab economies, especially against the backdrop of stagnant growth.

By 2010, jobs will have to be created for more than 40 million new entrants into the work force. If the current rates of unemployment persist, the size of unemployment would almost double by then, to about 25 million. If unemployment is to be reduced to a manageable level by the year 2010, a minimum of five million jobs will have to be created every year.

Further, if the recent trends in productivity and real wages persist, the spectre of even deeper underemployment and more massive poverty is sure to haunt the region in the near future. Heightened social strife is certain to ensue.

V Why is unemployment high, and rising, in Arab countries?

Deficient demand for labour, stemming from *stagnant growth as well as the labour-light, capital-intensive character of whatever growth achieved*, especially in the large private sector, in the last two decades are the *immediate* causes of large-scale *open* unemployment.

An analysis of job creation, and destruction, in Egypt in the first half of the 1990s is instructive. Considering absolute change in employment over the period (1990-1995) reveals that the entire economy gained a little more than 700 thousand jobs. Compared to the size of annual cohorts of new job seekers (variously estimated around 450 thousand) it is no wonder that unemployment has mounted significantly. The sectoral decomposition of the employment gain, and loss, is interesting.

It is estimated that, between 1990 and 1995, government gained about 750 thousand jobs while the public sector lost a small number of job opportunities. The outside-establishments private sector- a lower bound proxy for informal economic activity- provided more than 550 thousand additional jobs. On the other hand, excluding agriculture, the in-establishments private sector- an upper bound on formal economic activity- gained a little more than 200 thousand jobs.

In view of this record of sectoral job creation and destruction, the hopes pinned on the *large* private sector for massive job creation, seem unduly exaggerated. By contrast, in spite of the constraints placed on government employment under structural adjustment, government service and the “informal” sector proved to be more reliable generators of employment.

Moreover, the evidence is that the employment content of recent investment and output growth are minimal in comparison to the challenge of job creation in the country.

Average employment *elasticity* of output growth (the ratio of relative change in employment to relative change in output) for the economy as a whole comes to 0.054 only¹. During the same period, LE one million of output growth is estimated to have resulted in the addition of eight job opportunities.

These findings can be utilised to estimate the economic growth requirements of generating enough job opportunities to cater to new entrants in the labour market as well as reduce the initial pool of unemployment to nearly full employment within a reasonable time horizon, say 10 years.

The size of the annual cohort of new entrants is normally estimated at 450 thousand. An additional 250 thousand job opportunity per annum would need to be created to liquidate the initial stock of unemployed persons within 10 years. Thus average annual job creation should meet the target of 700 thousand opportunities.

At the employment intensity rate calculated above, GDP would need to grow, on average, by LE 88 billion annually. Related to the 1995 GDP of a little lower than LE 200 billion, an incredible annual rate of GDP growth of 44% emerges as required!

Add to this a high, and steadily rising, capital/output ratio of more than 2.5 (and an incremental capital/output ratio in excess of 7!) during 1990-1995 and the capital outlay implications turn out to be even more astounding.

These simple calculations, and their impossible-to-attain results, attest to the sheer inadequacy of job creation in Egypt in the 1990s. More importantly, it is certain that if the employment parameters of the 1990s growth pattern continue, the country is heading for an employment catastrophe.

Beyond the immediate causes of high open unemployment, it is important to recognise the *negative impact of structural adjustment on employment generation*.

Capitalist restructuring under the structural adjustment paradigm aims at instituting private capital as the principal mover of economic activity. This invites favouring capital at the expense of labour. Needless to say, owners of capital represent a small minority in poor countries where earnings (income from work) is the principal source of livelihood for the vast majority of the population. Favouritism to capital, especially *large* capital, particularly in the context of economic recession, invariably results in widespread unemployment and widening poverty.

¹ The World Employment Report (ILO, 1996/97) provides elasticities of employment to output growth in manufacturing for a number of developing countries during 1986-1992. According to our calculations, the constant-prices elasticity for "Manufacturing, mining and electricity" in Egypt during (1990-1995) would be about 0.12. This value is to be compared to 1.04 in Jordan, 0.84 in Malaysia, 0.66 in Indonesia 0.38 in Thailand and 0.28 in Egypt itself, given by the World Employment Report for the period (1986-1992).

Structural adjustment constrains job creation, especially in the “formal” sector thus *forcing* growth of informal economic activity, if job opportunities are to be generated.

The, by definition, recessionary *stabilisation* phase of structural adjustment has to lead to lower levels of job creation. If growth does not pick up later on- during or after the “adjustment” phase- unemployment is bound to mount further.

Moreover, the structural adjustment paradigm has a “large capital” bias built-in, the assumption being that only large capital can benefit from economies of scale, afford to innovate, and hence raise productivity and spur economic growth.

But large capital tends to invest in capital-intensive, labour-sparse, economic activities. In addition, government employment is to be contained in order to restrain public expenditure. Divestiture of public enterprises is expected to add to unemployment through laying-off “redundant labour”. With employment opportunities drying up in the economy, informal economic activity gets to be the employment “escape hatch”.

But since structural adjustment has a built-in bias to favour large capital, it, unavoidably, *puts informal activity at a disadvantage*.

In the absence of the conditions of competitive markets and effective regulatory mechanisms- conditions that structural adjustment programmes do not really care to create, access to information and market entry are rationed on the basis of wealth and power- not at all separable. Thus, the “large capital” bias entails continuation of the erstwhile hostile environment to the private sector but restricted to informal-small enterprise. In relative terms, the position of informal-small enterprise deteriorates further.

Under structural adjustment, large capital is given all the incentives (tax holidays, land and infrastructure at subsidised prices, credit on easy terms and even accommodating labour laws).

However, this is only the legal side of large capital favouritism. Owners of large capital in less developed countries tend to be connected, indeed often organically linked, to centres of power and government. This cohabitation of large capital and political power leads to crony capitalism in which the legal favouritism is surpassed many times over.

By contrast, informal entrepreneurs, by definition relatively poor- read powerless- continue to negotiate a thicket of red tape, unfavourable regulation and petty corruption. They lack access to all sorts of capital: physical, financial, human and social. Under these conditions, it is not surprising that informal enterprise would face a relatively hostile environment.

In Egypt, for example, there is evidence that intensification of capitalist restructuring, through structural adjustment, resulted in higher establishment failure rates in general. Since informal-small economic units are notorious for relatively higher failure rates the world over, we can expect higher than average failure rates for informal economic activity in general.

Finally, there is the *weakness of remedial measures* (social safety nets and social funds) that are meant to counteract the negative impact of structural adjustment, unemployment included.

All countries in the region have a semblance of social safety nets in place. But the structure, and effectiveness, of the safety net system vary considerably from one country to another. Tunisia is known to have a rather comprehensive and relatively effective one. The social safety net system in the Sudan is famous for its Zakat component.

However, an assessment of social safety nets in the region does not seem to exist. A rigorous assessment is dictated by deepening problems as well as scarcity of resources. Amazingly, nobody seems keen on bringing such an evaluation about. It calls for close monitoring and in-depth research that seems to be hampered by political expediency.

Nevertheless, based on the observed deterioration in employment generation and poverty, one could safely conclude that social safety nets in the region are *neither extensive enough nor sufficient to adequately protect those they purport to cover*. In some Arab countries, minimum pension schemes for the destitute provides for approximately US \$5 per month, i.e. less than one sixth of the per capita one-US-dollar per day poverty limit!

Assistance schemes, such as social funds, created to alleviate the negative- and meant to be temporary- side effects of structural adjustment programmes in some Arab countries, have not proven sufficient to tackle extensive unemployment and widening poverty.

More harmful is the tendency to exaggerate the “success” of such schemes for political purposes while the problems of unemployment and poverty intensify.

In Egypt, for example, under a donor-supported, and highly praised, scheme it is claimed that “permanent job opportunities” are being created at a cost of a few thousand Egyptian pounds. As shown above, economy-wide calculations of the cost of a job opportunity in the last few years come to more than a few *hundred thousand* pounds.

The previous discussion concentrated on the easier-measured aspect of open unemployment. Issues of productivity and real wages, and hence poverty at large, suffer the same chain of reasoning, only to a deeper extent.

In the final analysis, social safety nets and social funds, even if they prove to be effective tools of social *protection* of the poor in the region, cannot be instruments of large-scale employment generation, the basic road to poverty eradication.

Unemployment and poverty are proving far more serious and resilient than advertised under the structural adjustment mantra. The promised growth that was meant to lift everybody up has not materialised. Whatever growth took place has fuelled social polarisation in Arab societies through spectacular enrichment of a few at the expense of the vast majority.

VI Impediments to full employment

In addition to the three major causes of high, and increasing, unemployment in Arab countries discussed above, some *structural* impediments to full employment can be identified.

Poverty, defined as human capability failure, surely aggravates unemployment. Within the human development paradigm, poverty is defined as a *failure of human capability*, i.e. the inability of people to generate the human capabilities required for the *welfare entitlement* of a social entity: a person, a household or a community.

Hence, poverty is not about low income or expenditure, or even the failure to meet basic needs, but about human capability failure. In this perspective, poverty is almost synonymous to *powerlessness*. Powerlessness does manifest itself in income-expenditure deficiency, a lower level of satisfaction of basic needs, and, more importantly, *in lack of access to, and control over, capital: physical, financial, human and social*. This closes the vicious circle of poverty through generation of unemployment.

A little more than one year ago the Regional Bureau for Arab States of UNDP issued an important document: "Preventing and Eradicating Poverty; Main elements of a strategy to eradicate poverty in the Arab states".

The document asserts that in the mid 1990s, 90-100 million Arabs (out of a total of about 250 million) should be considered poor. The document goes on to say "there is enough evidence to claim that [poverty] may be rising".

On the level of the region as a whole, many factors interact to shape this failure of human capability. Most fundamental is the inadequacy of the human capital stock, especially on the quality dimension.

In spite of tremendous quantitative expansion in education, illiteracy is still high and human capital accumulation (measured in mean years of schooling) is lower than in East Asia. Whatever indications there are point to poor, and probably deteriorating, quality of human capital.

In addition, the poor are deprived of education at higher than average rates hence reducing their chances for good employment.

The dearth of skill in the region is also driven by the absence of a dynamic training, and research-training, system. Such a system is essential, particularly in a period of rapid transformation in the economic structure. The situation in Egypt is instructive.

As mentioned earlier, agriculture has been shedding labour at a grand scale. If the major employer continues shedding labour from a still huge pool, formed initially by rejects of the educational system, labour withdrawals from agriculture are bound to be large and of limited skill content. This, naturally, exerts a heavy pressure on employment creation outside agriculture. Since the employment capacity of *formal* private enterprise is rather limited, its absorptive capacity of additional, especially low skill, labour cannot be great.

But, labour absorption in *informal* private enterprise tends to be at low productivity and real wage while the rest of labour shed by agriculture feeds unemployment.

On the other hand, if the, relatively small, “modern” sectors of the economy are to create a sufficiently large amount of “good” job opportunities, many economy-wide changes are required, not limited to just boosting investment.

Large investments in re-training would be required to rehabilitate labour shed from agriculture for high productivity jobs, if these are created. This, in turn, means that the education-training system needs to be transformed into a system of life-long education at successively higher levels of quality in order to enable continuous upgrading of the skills of the labour force.

Since low quality of skills also characterises the output of the educational system, a major reform effort concentrating on raising the quality of educational output is called for. Analysis of the requirements of higher quality in education reveals that many *economy-wide* reforms are required.

Low, and deteriorating, access to means of building human capital can also be traced to the domain of health, where the poor are increasingly deprived of high quality private and basic health care in most Arab countries.

But foremost, the poor suffer as well limited, and in many ways diminishing, access to physical capital- particularly land in rural areas- and finance. Furthermore, the exclusion of the poor from social and political institutions, which engenders their powerlessness, is overarching.

One manifestation of this is the lack of effective and integrated support to Small and Micro Enterprises (SMEs). This is so in spite of the fact that private economic activity in Arab countries is overwhelmingly small-scale, even when restricted to non-agricultural enterprises². Moreover, small-informal economic activity proved relatively successful in job creation. Nevertheless, as indicated above, support to SMEs is weak and is further enfeebled under structural adjustment.

There are also important *institutional impediments* to employment generation in Arab countries. For example, labour markets are traditional, severely segmented, and dysfunctional; hence employment exchanges are ineffective, and so on.

These “market failures” persist essentially because the “structural adjustment” package did not really care for structural reform other than ensuring a stable

² Of 1.595 million, private non-agricultural, establishments enumerated in Egypt in 1996, 93% employed less than five workers and 98% (i.e. 1.566 million) employed less than ten. It is expected, however, that their share of employment would be lower than their share in the universe of enterprises. Nevertheless, establishments employing less than five workers accounted for near to two thirds of employment (64%) and those employing less than ten 77%.

macroeconomic environment and openness to international trade. These are the requirements of reinforcing "global capitalism" that cater only for the interests of the powerful few in national economies and on the world scale. Structural reform that ensures building competitive and efficient markets, an essential requirement of growth, is, it seems, nobody's concern.

This fundamental "omission" is sometimes glossed over by the claim that labour markets are "rigid" and the cost of labour is "high", conditions that deter employers from hiring.

Surely, a level of labour market *flexibility* that ensures workers rights and social cohesion, as well as efficiency, is a required component of an *integrated* structural reform package.

However, a higher level of flexibility, by itself, will not do the trick. It is even likely to be counterproductive. Under the present conditions of widespread unemployment and poverty, even lower wages and worker benefits and strained labour relations would not take Arab economies closer to full employment.

Reinvigorating growth and generation of, productive and remunerative, job opportunities on a scale sufficient to significantly reduce unemployment, and effectively combat poverty, will require a complex policy package that goes far beyond measures such as labour codes that lead to a more flexible labour market.

To go back to the *immediate* causes of unemployment, it is clear that, in the ultimate analysis, the task of employment generation has fallen between the cracks of misguided "structural adjustment".

Governments have already abdicated and no private sector is yet in sight to take up the responsibility of "dynamic growth" and creation of good jobs sufficient to eradicate all forms of unemployment. Indeed the chances for such a private sector seem slimmer by the day.

This policy vacuum cannot continue if the twin affliction of unemployment and poverty in Arab countries is to be adequately tackled!

VII Towards full employment

The institutional basis

Unemployment has been on the rise and poverty- in the widest sense of human capability failure- growing. Growth has been slow for almost two decades. Worse, economic output is being increasingly unequally distributed. All are conditions that do not augur well for future economic growth and employment generation.

Growth, ultimately leading to poverty eradication, should be the overarching objective of development policy in Arab countries at present. It is generally acknowledged that large-scale generation of, productive and gainful, job opportunities- an essential objective in its own right- is a valid strategic path to this objective.

The consensus now is that the most effective way to eradicate poverty consists of empowering the poor to bail themselves out of poverty. But the poor have no capital but their labour power and creative capabilities that are suppressed by impoverishment.

Empowering the poor therefore requires that the state, being the guardian of the interests of all citizens, adopts policies and programmes that equip them with all types of capital: human, social, financial and physical.

Most important of these types of capital is the human capital- built through education, training and health care. Financial capital is essential to enable the poor to set-up SMEs that represent one of the most effective means for job creation and income generation. In predominantly rural societies, as is the case with Arab countries, access to physical assets such as land and irrigation water are basic requirements for sustainable livelihood. Finally, since poverty is synonymous with powerlessness, social capital is indispensable to provide the poor with access to social and political organisations that ensure that their voices are heard and their interests safeguarded.

That the *state* has the responsibility for empowering the poor through provision of capital does not mean, however, that the state assumes the role of direct provision of goods and services. This has failed. The requirement rather is that the state guarantees the provision of different forms of capital to the poor through distributive measures. For it is rightly feared that the evolving pattern of supremacy of little regulated private sector activity is doomed to also fail in combating poverty, even if it succeeds in generating economic growth in the narrow sense. However, it is now well established that significant economic growth is unlikely to result in situations of low human capability and rampant inequality.

Indeed, success in growth leading to poverty eradication is conditional on the evolution of a new social contract in which a *synergy*, not just complementarity, obtains between a revitalised and efficient government, a

dynamic and socially responsible private sector, and a powerful and truly grassroots civil society.

The profit motive is, by definition, ineffective in equipping the poor with the capital necessary to combat poverty (for example, providing basic education, or health care, to the poor does carry a profit margin to entice private sector providers).

However, means can be found to ensure that the private sector contributes to this task. Dutifully paying taxes is one way, provided the government uses its revenues to empower the poor. Donations represent another way. The private sector can also be persuaded to provide free services to the poor through *pairing* of free service outlets with those operating for profit. Tax incentives could be effectively used to encourage the private sector to behave in this socially responsible manner.

To be sure, the *primary* responsibility for empowering the poor in less developed countries still lies with the state. Hence, civil service reform, and governance reform including local government- to be truly *representative of*, and *accountable to*, the people, represent essential components of the new social contract.

Other than government, the most significant social actor in empowering the poor could be civil society, provided that constraints on forming civil society institutions, and on their activity, are lifted and the capacity of the sector, for effective contribution to human development is built.

A policy package

There are three basic axes to a full employment policy package that have to be adopted, in an integrated fashion, and led, by the Arab states:

1) Monitoring of employment and poverty

An efficient system for monitoring employment and poverty is badly needed. This system should allow for *rapid and regular* monitoring of *basic parameters* as well as less frequent *in-depth analysis* of the *character* and *dynamics* of employment and poverty. To serve this purpose, many inputs should be integrated to constitute a significantly better, and regularly updated, data base on human capability in Arab countries.

2) Effective safety nets

The social safety net systems in place in Arab countries are evidently lacking in coverage and effectiveness. Two requirements of *effective* safety nets are clear: safety net schemes should provide for income transfers *sufficient* to guarantee a *minimum of decent human existence to all in need*, and be indexed to inflation. These systems should provide, in particular, for adequate unemployment compensation.

3) Poor-enabling, employment-creating, development

Working towards full employment has to be anchored in a pro-poor process of development that generates labour-intensive growth providing for productive and gainful employment opportunities for all individuals available for work.

However, the poor need to be equipped for such employment opportunities through pro-poor *human capital* accumulation by means of education, training and health care. More importantly, they need, in addition, to be enabled to help *create* such employment opportunities through the creation and management of SMEs. Crucial for the support of this strategy is ensuring easier access to, and firmer command of, more conventional forms of *capital*: physical assets and finance. In addition, SMEs are fragile economic entities that demand a great deal of additional support to guard against failure.

But the crux of the processes of poor-enabling development is *institutional reform* of major proportions that radically raises the share of the poor in the power structure of society. Institutional reform is the path to maximising the *social capital* of the poor. As such, it is institutional reform, rather than economic growth *per se*, that constitutes the heart of poor-enabling development. Without it, growth is likely to be slow. More importantly, growth is doomed, in the context of unrestrained markets, to grossly favour the rich and penalise the poor.

Specific dimensions of the type of development deemed sufficient to attain full employment in Arab countries are given below³. The intended benefits of this policy package can only accrue from its integration in a unified whole.

i) Accumulation of human capital

Education and training: A full-employment development policy should have the objective of universalising high quality, development relevant, basic education while *ensuring* that the poor are not excluded on account of poverty. In some cases this means going beyond *truly* free education. For the poorest of the poor, some form of affirmative action in the form of scholarships that provide for the direct and opportunity cost of education, will be necessary. Children of poor background should not be excluded from higher stages of education on account of material means.

Quality of education, including relevance to context-specific life skills and labour market requirements, should be continuously improved in all stages. This is a demanding and complex societal endeavour that extends beyond the confines of the education sector.

Formal education is only but one direction for building human capital. More relevant to the poor, particularly in conditions of widespread unemployment, are *informal* channels for effective, market relevant, skill acquisition. This form of *training* would as well be quite relevant to dropouts or graduates of the educational system with limited skills.

Redressing the gender disparity in human capital accumulation should rank high on the agenda of the required education and training strategy.

³ This follows closely the recommendations contained in (UNDP, 1997).

Health care: The poor should not be deprived of basic preventive and curative health care on account of their poverty. Special consideration should be accorded to the provision of health care for girls and women.

ii) Employment and productivity

Employment creation should be made an explicit policy priority. For significant increases in social welfare to result from job creation, productivity needs to be improved such that real wages increase and the disparity in the distribution of income and wealth is reduced.

The job creation strategy should have three interrelated objectives: reduce unemployment to a level near full employment; double productivity every few years; and ensure adequate satisfaction of the basic needs of the working population.

New job creation should be expanded based on *growth in investment, a labour-intensive growth structure, and employment-intensive technology.*

Enhancing productivity requires, in addition to improving human capital accumulation, instituting a favourable social incentive system with positive rewards to education and high productivity. Moreover, a synergistic technological duality should be established, which entails raising the productivity of labour-intensive technologies in SMEs, strengthening modern technologies, and reinforcing the linkages between the two types of technologies. Special consideration should be given to the gainful employment of women.

iii) Support for SMEs

Development of informal-small enterprise can contribute effectively to the strategic path of poverty eradication through employment generation. Informal-small enterprise is labour-intensive and capital-light- conditions that are perfectly suited to the national economies accommodating the vast majority of Arabs. Surely, however, its productivity needs to be enhanced.

The effort needed to revitalise informal-small enterprise should amount to a (serious) national campaign. Public policy formulation and implementation should take into consideration the multifarious nature of informal economic activity as well as current constraints to its development.

SMEs are notorious for high failure rates unless the economic and institutional environment in which they are set-up is truly hospitable. It is also essential that SMEs operate at reasonable, and rising, levels of productivity in order to furnish owners and workers with adequate, and improving, earnings in real terms.

Hence support to informal-small enterprise should extend to the entire spectrum comprising the legal and regulatory environment, finance, training, technical and management backstopping, and penetration of domestic and foreign markets. Ensuring easier access to, and firmer command over, physical assets, particularly land and water in rural areas, is also necessary.

But all these policy directions cannot bear fruit without true empowerment of the, present and would be, entrepreneurs of informal-small enterprise- who are mostly poor and marginalised- through ensuring potent access to effective social and political institutions.

Women, by virtue of their higher unemployment rates and proven ability to manage SMEs, are prime candidates for benefits aimed at reinvigorating this mode of economic activity.

This is not to say, however, that informal-small enterprise is going to be the salvation of Arab economies. Making this claim, and acting upon it, would invite another major disappointment in another decade or so.

The sound approach is what the Chinese call “walking on two legs”. No economy developed without significant growth of different size enterprises and, more importantly, forging strong links between large and smaller enterprises.

In addition to generation of productive and gainful employment opportunities, successful public policy for the development of informal-small enterprise should result in higher levels of productivity as well as of formality of economic activity and graduation to larger size.

A successful overall development policy should, in addition, weave this dynamism with concomitant growth of formal-large economic units and building synergy between these and the informal-small enterprises.

iv) Sustainable rural livelihoods

Unemployment and poverty are increasingly acquiring a rural character in Arab countries. In stimulating development within the agricultural sector, a key role for the government will centre on improving rural infrastructure and farm to market linkages. Little of this potential can be captured without a rationalisation of irrigation systems. Extension services must be improved.

There is also need to develop off farm employment opportunities for the land-poor and landless through industrial decentralisation, micro-enterprises and through public works.

Being an important mainstay of agricultural communities, women should figure prominently in the design and implementation of rural development policies and programmes.

v) Institutional reform

Competitive markets: Competitive market mechanisms need to be reinforced. This calls for *more* government action to *regulate* markets in order to ensure competitiveness through free access to information and markets. This is the fundamental guarantee of efficiency and minimisation of the harmful social impact of “savage capitalism”.

In particular, labour market reform should ensure *free* access to information on employment opportunities and establish *efficient* employment exchanges. Labour markets need also to be *gradually deregulated* in order to increase *flexibility* within a competitive market framework while ensuring social security. This should be based on balancing rights of employers with those of workers. Social safety nets need to provide for adequate inflation-indexed

unemployment compensation. Finally, *credible* chances of productive employment for the unemployed, including *retraining* if needed, should be made available.

Civil service reform: Essential economic functions remain the unique domain of government. Nevertheless, governments in LDCs are notoriously inefficient. The level of government efficiency has implications for economic performance at large, and to that of the private sector in particular.

Hence, reform of the civil service represents an essential component of an institutional reform package. Reward to government service needs to be reformed through transparent structure, adequate wages, decompression of scales, and equalising discrepancies among various parts of government service. Allocations for equipment, operation and maintenance, necessary for efficient functioning, should be made available. Sound public administration practices, leading to higher productivity, need to be instituted including basing recruitment and advancement, as well as termination of service, on merit.

In case of retrenchment of public service employees, remedial measures such as severance packages, redeployment and retraining, credit programs and public works programs, should be implemented.

In order to reduce budget deficits, the tax structure should be reformed to ensure fairness as well as raise the efficiency of tax collection, especially from the rich who generally manage to evade taxes more than the poor, and government spending should be rationalised.

Development of civil society: Civil society institutions provide a window of opportunity for a significant contribution to the job creation and eradication of poverty. However, for this potential to materialise, civil society institutions need to develop into a social movement that is broader based, and hopefully more efficient, than the state. The purpose is not to replace the state, or even absolve it from its basic responsibility. Rather, the objective is to complement the faltering state. The ultimate value of such a movement lies in fostering collective social action, the surest way of overcoming powerlessness: the core of poverty.

But, the community of civil society itself needs to metamorphose into a broadly based grassroots movement of collective social action with significant potential for sustainability.

It is crucial in this respect to build on *informal and culturally rooted institutions* that are imbedded in established traditions and serve the poor, rather than simply try to “modernise” them. Informal networks allow greater opportunity for the poor to mobilise, articulate their concerns, further their interests and press them upon higher centres of power and authority. The institution of Zakat is an important example. Another is the cooperative movement, which has an excellent past record in some Arab countries.

The empowerment of poor through inclusion in socially effective civil society institutions would stand empty in an essential way without *full* integration of women.

Governance reform: Governance is the critical link in the persistence and reproduction of unemployment and poverty. The poor are, by definition, *powerless*. As indicated before, they lack all forms of conventional capital, physical, financial and human. But, above all, they have no voice in the affairs of societies ruled over by unrepresentative and unaccountable governments. The powerlessness of the poor is in addition being exacerbated by savage capitalism unleashed through *unregulated* “capitalist restructuring” for markets invariably favour the rich and penalise the poor. The reform list in this domain is daunting.

Laws, and administrative procedures, need to be reformed to guarantee the rights of citizenship and consistency with basic human rights, particularly the rights of free expression and organisation, for all citizens. Rule of law should be instituted under a positively independent judiciary.

For the poor to have their voice heard, and their interests recognised, government needs to be made truly representative and effectively accountable to the people. Genuine local government, not just decentralisation, ensures more effective participation of people, especially the poor, in the difficult war on unemployment.

Clearly, citizenship and political rights would remain grossly lacking if they are not, in actual practice and not just in the letter of the law, *fully* inclusive of women.

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