The Role of Public Sector Employment in Labor Market Outcomes

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WB-ILO MENA LM Policy Course, 2010 October 25-29
Outline

I. The Conceptual Role of Public Sector Employment in Employment Outcomes
   1) “Social contract” – Tarik Yousef argument
   2) Unemployment – private sector employment link – Ragui Assaad argument

II. Characteristics of MENA Public Sector Employment
   1) Wage structure: incentives for investment in human capital
   2) Nonwage benefits
   3) Labor mobility – labor market transitions

III. Testing the “Assaad Hypothesis”

IV. Productivity in the Public Employment Sector

V. Policy Implications
I. THE CONCEPTUAL ROLE OF PUBLIC SECTOR EMPLOYMENT IN EMPLOYMENT OUTCOMES
General Framework for Assessing Labor Market Outcomes of Policy Interventions

DEMAND FOR LABOR

- Macroeconomic environment
- Investment climate
- Skills composition / productivity of the labor force
- (Global) business cycle
- Tax wedge
- Regulatory environment

SUPPLY OF LABOR

- Demographic trends
- Migration
- ECD, basic education, higher education, TVET
- ALMPs
- Household level labor force participation strategies

LABOR MARKET FRICTIONS

- Labor market intermediation
- Labor market regulations & institutions
- Formal / informal & urban / rural segmentation

EMLOYMENT & UNEMPLOYMENT OUTCOMES

Distortions caused by public sector employment
Distortions caused by subsidies
Social insurance mechanisms
The History of the “Social Contract” in MENA - Tarik Yousef

What Causes High Unemployment in the Arab World? – Ragui Assaad

1. Lack of Economic Growth?
2. Lack of Human Development?
3. Youth Bulge?
4. Rapid Inclusion of Women in the Labor Force?
5. Lack of Dependence on Manufacturing and Heavy Reliance on the Service Sector?
   • Low Explanatory Power of These Traditional Explanations!!!
Alternative Explanation of Persistent High Unemployment in the Arab World

1. Public sector employment distorts the labor market by artificially raising expectations and encouraging queuing.
2. Public sector employment results in inappropriate investments in human capital.
3. Education system becomes oriented to producing credentials rather than skills, thus causing the skill-mismatch problem.
II. CHARACTERISTICS OF PUBLIC SECTOR EMPLOYMENT IN MENA
Private – Public Composition of Employment in Selected MENA Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Private</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yemen</td>
<td>49.1</td>
<td></td>
</tr>
<tr>
<td>Iraq</td>
<td>40.6</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>39.1</td>
<td></td>
</tr>
<tr>
<td>Syria</td>
<td>30.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Morocco</td>
<td>15.7</td>
<td>11.8</td>
</tr>
<tr>
<td>Lebanon</td>
<td>11.8</td>
<td></td>
</tr>
</tbody>
</table>
Yemen: Wages as a Function of Years of Education by Sector of Employment
Egypt: Wages as a Function of Years of Education by Sector or Employment

Wage rate (in LE/hour) vs. Years of education attained

- **Public sector**
- **Private formal**
- **Private informal**
Egypt: Wage Distributions by Sector of Employment

Kernel Density Plot of Hourly Wages

- public
- private informal
- private formal

kernel = epanechnikov, bandwidth = 0.1103
Syria: Rate of Return to Education by Sector of Employment

Source: Syria MILES National Team’s calculations based on 2008 Labor Force Survey Data
Patterns of School to Work Transition by Educational Attainment Levels

- HE Institute
- Vocational Secondary
- General Secondary
- University

% of people having found jobs vs. Number of months after leaving education

Source: Syria ETF School to Work Transition Survey 2010
Incentives for Investing in Human Capital in the GCC: the UAE Case

Returns to Education for FEMALES
By Nationality

Ascending levels of Education

- UAE/GCC Nationals
- Western Nationals
- Arab Non-GCC
- Developing Economies

Source: 2009 UAE Labor Force Survey

Source: Vazquez-Alvarez (2010)
Morocco: Sector of Employment and Life-cycle Earnings Profile: Morocco

Source: Bodor, Robalino and Rutkowski (2008)
### Egypt: Labor Market Transition Patterns 2008-09 by Sector of Employment

<table>
<thead>
<tr>
<th></th>
<th>Public 2009</th>
<th>Formal Private 2009</th>
<th>Informal Private 2009</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public 2008</strong></td>
<td>95%</td>
<td>3%</td>
<td>2%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>1,113</td>
<td>30</td>
<td>27</td>
<td>1,170</td>
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<tr>
<td><strong>Formal Private 2008</strong></td>
<td>20%</td>
<td>45%</td>
<td>35%</td>
<td>100%</td>
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<tr>
<td></td>
<td>103</td>
<td>229</td>
<td>173</td>
<td>505</td>
</tr>
<tr>
<td><strong>Informal Private 2008</strong></td>
<td>4%</td>
<td>8%</td>
<td>88%</td>
<td>100%</td>
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<tr>
<td></td>
<td>75</td>
<td>155</td>
<td>1,681</td>
<td>1,911</td>
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<tr>
<td></td>
<td>1,291</td>
<td>414</td>
<td>1,881</td>
<td>3,586</td>
</tr>
</tbody>
</table>
The Impact of the Size of Public Sector Employment on the Degree of Informality in MENA

Public Sector Dummy and Informality

National

Urban

Rural

Morocco 0.00
Lebanon 0.00
Egypt 0.00
Syria 0.00
Iraq 0.00
Yemen 0.00

Morocco 0.00
Lebanon 0.00
Egypt 0.00
Syria 0.00
Iraq 0.00
Yemen 0.00

Morocco 0.00
Lebanon 0.00
Egypt 0.00
Syria 0.00
Iraq 0.00
Yemen 0.00
III. TESTING THE “ASSAAD HYPOTHESIS”: HOW CHANGES IN PUBLIC SECTOR EMPLOYMENT POLICIES AFFECTED EMPLOYMENT OUTCOMES IN MENA
Share of Public Sector Employment among Secondary Plus Education in MENA 2000-05

Source: Assaad (2008)

**Formal Employment in 1998**
- Government: 54%
- Public Enterprise: 15%
- Private firms: 31%

**Formal Employment in 2006**
- Government: 53%
- Public Enterprise: 12%
- Private firms: 35%

- Government: New Formal Jobs = 263,216
- Public Enterprise: New Formal Jobs = -38,622, New Informal Jobs = 21,466
- Private firms: New Formal Jobs = 358,879, New Informal Jobs = 1,478,408
Share of Public Employment within the Employment of Secondary Plus Education

Source: Assaad and Ramadan (2008)
The Impact of Reduced Expansion of Public Sector Employment: Syria

Fig(36-A): The multivariate distribution of Incidence of public employment, youth unemployment rate and gender collapsed in educational levels for Syria’s governorates HIES 1997 & 2004, and the annual fitted line.

Source: Assaad and Ramadan (2008)
The Impact of Reduced Expansion of Public Sector Employment: Egypt

Fig(37-A): The multivariate distribution of Incidence of public employment, youth unemployment rate and gender collapsed in educational levels for Egypt’s governorates ELMPS 1998 & 2006, and the annual fitted line.

Source: Assaad and Ramadan (2008)
IV. PRODUCTIVITY IN THE PUBLIC EMPLOYMENT SECTOR
Productivity Issues and Public Sector Employment: SOEs in Syria

Wage Growth and Productivity in the Public Industrial Sector

Source: Central Bank of Syria various quarterly bulletins
Why Does Public Sector Productivity Matter?

\[
\frac{GDP}{Pop} = \frac{GDP}{E} \cdot \frac{E}{LF} \cdot \frac{LF}{Pop_{WA}} \cdot \frac{Pop_{WA}}{Pop}
\]

\[
g_{\frac{GDP}{Pop}} = g_{\frac{GDP}{E}} + g_{\frac{E}{LF}} + g_{\frac{LF}{Pop_{WA}}} + g_{\frac{Pop_{WA}}{Pop}}
\]
Output per Worker by Economic Sector in the UAE (% of Government Services Sector)

Source: Based on UAE National Accounts Data
Total Compensation per Worker (% of Average Compensation in the Government Services Sector)

Source: Based on UAE National Accounts Data
V. POLICY IMPLICATIONS
Possible Policy Interventions with the Aim to Improve Total Employment Outcomes

- Freeze Expansion of the Public Sector?
- Performance / Productivity Based Pay in the Public Sector?
  - The difficulty of measuring performance / outcomes in the activities of the public sector
    - Example: Education Outcomes
- Amending the Institutions of the “Expired Social Contract”?
  - Still no regular job search effort if registered in the “public sector employment queue” in several MENA countries
- Altering the Role of Social Dialogue / Trade Unions in the Public Sector?
- Classifying Employees of SOEs under the Private Sector Labor Law?
- Approximating Public and Private Sector Employment Regulations?