The issue of young people’s employability (15-24 year-olds) in Southern and Eastern Mediterranean Countries (SEMCs) has gained more importance over the past ten years, triggering the “Arab Spring” revolt. Indeed, it is significant to note that the spark to this wave of protests was the self-immolation by fire of a young Tunisian university graduate in response to an altercation with a policeman over his “informal” business as a street vendor. The persistence and worsening difficulties in integrating the young into the labor market over the past decade have given rise to mounting tensions between the youth, especially the most highly qualified, and society. The social cohesion in force did not resist the deterioration of young people’s living conditions caused by a long-term exclusion from the labor market. This economic exclusion was also fueled by an acute sense of social and political exclusion. In fact, the increasing awareness and access to broader parts of the world through the media, especially information and communication technologies (ICT) have changed the aspirations of the younger generations in SEM countries, on the way society works and the part they could play in it. Consequently, the generation gap regarding adults and public authorities, still rooted in a traditional pattern, has widened quickly, hitting a breaking point in Tunisia and Egypt.

Although most SEM countries have completed their demographic transition, those under 25 years of age accounted for nearly half of their population in 2010, i.e. a proportion twice higher than in Northern Mediterranean countries (26%). If the large number of young people is a long-term asset for these countries, it also poses challenges in the labor market. Indeed, however low in previous decades, the demographic growth will yet have a continuous effect on the labor market. According to UN projections, the population of most SEM countries is expected to increase by a quarter as from 2030. Young people would then account for about 70 million people against 55 million today. As a result, this outlook implies that the labor market may absorb these additional millions of people in the next two decades.

Along with this demographic impact, a labor force participation rate effect is bound to be added. Indeed, SEM countries feature the lowest participation rates in the world. (Chart 14). This result is mainly due to a female participation rate lower than 25% in most SEM countries, compared to a global average of 52%. Along with the rising enrollment rate and average level of education (Chart 17), female participation rates are expected to rise significantly in the region. For instance in Turkey, the participation rate of women is 15% for those with a level of education lower than high school while it reaches a staggering 75% for those with a level of education higher than high school. By projecting the population dynamics, Blanc (2011) considers that SEM countries would badly need to create a minimum of 34 million new jobs by the year 2030

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1 We are particularly grateful for the assistance given by Isabelle Barthes to this second English version of the text.
just to maintain participation and unemployment rates at their current level. This figure is bound to triple, if the aim is to secure a job to all new entrants into the labor force. Not only is the challenge quantitative but also qualitative in order to respond to the surge in the number of university graduates, as observed in SEM countries.

A Growing Number of Graduates

In SEM countries, the new generation of young people is characterized by a fairly high level of education. Indeed, the allocation of substantial resources to primary and secondary education between 1960 and 1990 has sharply increased the number of students in higher education (post A-level) since the mid-1990s. Some countries, such as Tunisia, experienced a fourfold increase, ranging from 100,000 students to over 400,000 in 2010. In Algeria, the rise was equally important, as the student number soared from 30,000 in 1995 to over 1.1 million in 2010. Related to the total population, the number of students in SEM countries (except Morocco) is now reaching ratios comparable to those of North Mediterranean countries i.e. between 3200 and 4000 students per 100,000 inhabitants. This rise in university graduates results in a massive influx of graduates into the labor market. Thus, in Egypt and Turkey more than 400,000 new graduates enter the labor market every year. In Algeria, this figure reaches 150,000, in Tunisia and Morocco it is close to 70,000. Thus, the economies of these countries must create jobs meeting the qualifications and expectations of these new graduates, both in terms of wages and working conditions while seeing their situation on the labor market likely to deteriorate even more.

Young Graduates Faced with Mass Unemployment

For most Mediterranean countries, with the exception of Israel, the situation of young people in the labor market is critical with an unemployment rate between 25% and 45% (Chart 15). However, due to their substantial demographic share in SEM countries (except Israel) young people account for one third to 60% of the unemployed (Chart 16) while they are between 17% and 20% in most Northern Mediterranean countries. This ratio tends to increase with the financial crisis that affects primarily young people and enhances the structural problems related to the transition from the education system to the labor market. This mass unem-
Employment for young people is the main challenge for SEM countries since it has a major impact on the dynamics of the economy, the intergenerational balance and the relationship between youth and society. This may have serious political implications, as demonstrated by the events of the “Arab Spring”.

Education and Youth Unemployment Relationship: a Cause for Concern

The problem of youth unemployment in SEM countries, including graduates, though worsened by the current crisis, is not cyclical but structural. Indeed, the sustained growth of the graduate labor supply has
not met such a dynamic labor demand. As a result, the unemployment rate for university graduates has increased in the 2000s in most SEM countries. Thus, a growing relationship between the unemployment rate and the education level is noteworthy (Chart 17). These findings are all the more worrying as they may jeopardize individual and collective incentives to invest in human capital. In fact, from an individual perspective, if the degree no longer guarantees getting a job and a higher wage, the investment in human capital will not be cost effective. From a macro-economic perspective, public spending on education will no longer be relevant unless they produce the expected effects (innovations, better adaptation to technical advances) on the long-term growth. Conversely, in countries of the European shore, there must be a negative relationship between the education level and unemployment rate. In Spain, the unemployment rate for individuals with a primary education level is twice as high as that of individuals with a higher level of education. Another case in point, France, where the graduate unemployment rate is three times lower for people with a primary education level.

**How can High graduate Unemployment be accounted for?**

The rise in the unemployment rate of graduates reveals an inadequate creation of skilled jobs and this despite a sustained economic growth in the region (5% per year on average). This result shows that the relationship between the growth rate of GDP and the net creation of skilled jobs is low due to poor growth regime gains. To account for these low productivity gains in SEM countries, the fairly sizeable public sector as well as the low value-added content of private-sector jobs are the elements most often put forward.

**An Over-extensive Public Sector?**

Historically, the public sector has been the main outlet for university graduates in SEM countries. Although this distortion of skilled jobs to the low-productive public sector is sub-optimal for the long-term dynamics, curbing total factor productivity (TFP) gains, it used to guarantee a degree of social cohesion between the young and society. This social contract has slowly disintegrated under the effect of a dual evolution. On the one hand, as described above, the number of graduates has grown apace while, on the other hand there is a drop or slowdown in public recruitment. Indeed, during the 1990s, driven by the structural adjustments programs, SEM countries initiated policies of privatization and liberalization of their economies and faced drastic budget constraints. Thus, in Morocco the share of the public and semi-public
sector in total employment (including non-graduates) shrank by 2.5 percentage points between 1999 and 2010. Egypt, where the public sector has a much greater impact, experienced a 4-percentage-point decrease between 1995 and 2004 and in Tunisia the decline stood at 6 percentage points between 1997-2003 (Kocoglu, 2011). The public sector exerts an attraction over graduates for its numerous benefits associated with public jobs (job security, national healthcare access with advantageous terms for the pension system). As regards SEM countries, we can add a starting wage higher than in the private sector. Indeed, in most SEM countries wages in the public sector are higher than in the private sector. The gap is particularly wide in Morocco with an average wage 75% higher for public-sector workers than in the private sector. These benefits, in particular the wage gap, affect the job-search strategy of individuals by changing among other things their reservation wage, an important aspect for graduates that favors the segmentation of the labor market. The investigation on the integration of university graduates in Tunisia, conducted in 2004, illustrates the “binary” situation of young graduates (Ben Halima et al., 2011). Graduates in active employment 18 months after graduating, benefit, all things being equal, from a higher average wage than those who land a job in the private sector. This wage premium is based solely on the integration of the holders of a Master’s degree, a degree obtained by nearly half of Tunisian university graduates. When Master’s degrees’ holders pass the entrance examination in the public, then they get a job, particularly in Education, with a “high” monthly wage. In case of failure in the competition, they are either unemployed or obtain a job with a very “low” wage in the private sector and most often in the informal sector. As regards the other degrees, according to the authors there is no significant wage gap between private and public jobs. This second result shows that the private sector is not, in terms of wages, attractive enough for graduates. Thus, the combination of a shortage of public sector jobs and expansion in the number of graduates have resulted in long “waiting lines”. In SEM countries young graduates would be in rent-seeking strategies, obtaining public jobs and shifting away from more productive activities for growth. Consequently, upstream young people choose general training programs to land a job in the public service. Once graduated and unemployed, they would await a job meeting their expectations in terms of wages and working conditions that the public sector is best able to provide. Conversely, they will run the risk of long-term unemployment that can lead to unemployment of exclusion. For example in Morocco, the rate of long-term unemployment, which stands between 44% for non-graduates reaches 77% for university graduates: that is an average unemployment duration of 40 months against 24. In Tunisia, it is 28 months for university graduates against 19 months for non-graduates. Moreover, the majority of long-term unemployed university graduates are primo job seekers highlighting the difficult transition from university to the labor market. The problem of the duration of unemployment for young graduates is a key point in two main ways. Firstly, the isolation of young people from the labor market makes any initiative of return to work more costly and uncertain. Secondly, it leads to the depreciation of human capital, their main asset on the labor market and can sustainably divert future generations from investments in education and encourage the emigration.

The Difficult Transition to the Knowledge Economy

The productive structure of the economies of SEM countries is still oriented towards sectors with low skilled labor needs (agriculture, services, tourism, low-tech manufacturing industries). In Tunisia, for example, 90% of jobs in the textile and clothing sector are made up of operating agents, managers accounting for less than 5% of jobs. In SEM countries the private sector does not create enough skilled jobs to absorb the massive influx of new graduates. In the 2000s, Tunisia created an average of 30,000 jobs per year for graduates while the double would be needed to provide a job to each new university graduate (Kocoglu, 2011). This mismatch between the dynamics of the labor supply and demand thus explains, from a quantitative point of view, the significant rise in the unemployment rate of university graduates. The transition to an intensive-skilled-labor economy involves structural policies and long transitional periods. The integration of a generation of educat-
ed youth requires the development of a formal private sector that must focus more on study courses fostering the emergence of high value-added activities such as new technologies. The consequence of this upmarket productive structure is a drop in the informal sector that plays a prominent role in the economy of SEM countries (up to 50% of non-agricultural employment in Morocco and Egypt). Without this upward adjustment of production, the rapid improvement of education level does not result in productivity gains affecting the long-term growth.

The mismatch between labor supply and demand for graduates may also be explained by the content and quality of the training. University curriculums would be on one hand too focused on general courses overlooking technical and scientific courses and on the other hand their quality would be quite low (Martin, 2009). Companies search for skills and the degree is not, in the case of the countries with a high unemployment rate of graduates, the way young people can signal their skills and level of productivity to firms. Thus the failure of the signal effect of the diploma occurs through two effects. The first is quantitative and linked to the rapid enrollment increase in higher education. A too-easy access, or perceived as such by recruiters, causes a rapid depreciation of the degree and overrides the positive signal linked to the degree. The second effect concerns the quality of the training and the skills required for graduation. If recruiters are convinced that the graduation in question does not reveal any information on the potential “productivity” of individuals, they will not be able to use the degree as part of the selection of applicants. This result is all the higher as students are highly concentrated in a few course studies. Indeed, the heterogeneity of the jobs available in the labor market in turn requires skill heterogeneity. One of the challenges of the future educational policies is to alter the way recruiters, including the formal private sector, view graduates in order to restore credibility to the signal sent by the training.

**Active Employment Policies for Young People**

SEM countries’ governments have become aware of the issue of university graduates’ employment and since the 2000s have implemented measures to assist and support their integration. These measures are a combination of miscellaneous programs. First, governments have introduced policies to support youth employment which, if correctly targeted, can help young people find a proper job in the labor market. This type of measures is impeded by the well-known problem of deadweight losses and substitution effects between the target population and the rest of the population. In addition, the jobs created with this system may vanish with the removal of subsidies. Other public policies attempt to promote vocational training for the young to enable them to gain experience in firms. However, the training is not sufficient to secure a job, so the job creation is strongly needed. Governments have also tried to improve the monitoring of the unemployed to assist them in their job search or expand public employment aimed at the young for missions of general interest. Finally, policies to support entrepreneurship are likely to meet the needs for job creation and the expectations of young people in terms of independence and freedom. Active employment policies have shown limited successes. Tunisia’s example is a good case in point. Compared to other graduates, the young who carried out an Introductory Internship to Professional Life (SIVP), have an average unemployment rate slightly lower (30% against 36%), but an employability rate with a permanent job lower (22% against 28%). If we add deadweight losses for employers, still in connection with subsidy policies of hiring, the cost-effectiveness of these measures do not really seem worthwhile. In addition, active job policies target more specifically graduates and give fewer opportunities to unqualified youth, putting them in a predicament.

**Conclusion**

In the framework of SEM countries’ economic developments, the young have been a significant potential, especially since they are more qualified. However, the rapid and high unemployment rate of graduates in the 2000s emphasizes that this potential remains not only untapped but instead pushed aside «into exclusion through unemployment». This potential achievement requires a systemic approach to the problem for implementing structural measures. They must go beyond cyclical
policies to respond to the urgency of the situation by creating public jobs or subsidized temporary jobs for the young. The question is mainly to improve the content of the training offer (targeting common skill foundations) for a better match with the needs of the economy. In that respect, it is necessary to support skilled job-generating activities to help the productive system reach high value-added activities and foster innovative entrepreneurship through easy financing mechanisms.

Bibliography


