

Dossier: Social Policies and the Challenges to Improve Well-being in the Mediterranean Area

Job Creation, Innovation and Sustainability in the Arab Countries in the Southern Mediterranean: Will this Time Be Different?

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Arab countries had made some gains since the last decade of the 1980s. Then came the global financial crisis in 2008, which was soon followed by the Arab Spring in 2011, a period associated with significant political and economic disruptions, as well as domestic conflicts and refugee crises. The more recent Covid-19 pandemic took a toll on lives and livelihoods due to its adverse effects on health and economies, and not only among Arab countries. Today, countries are trying to reignite their economies, facing the dual challenge of combating inflation and avoiding the recessionary prospects that typically come with it, which have been amplified by the Ukraine-Russian war and the associated additional concerns for food insecurity and the adverse environmental impact of the return to the use of non-renewable resources following the energy crisis.

While it is difficult for individual countries to avoid the fallout from what seems to be a looming perfect storm globally, some may weather its effects better than others – like in the case of countries that adopted different responses to the pandemic. Still, many Arab countries face the future without having effectively addressed many pre-existing challenges, especially in areas such as employment, innovation and, more broadly, private sector development, and most importantly governance and modern and transparent institution building. This paper discusses these challenges for Arab countries in the southern Mediterranean, namely Algeria, Egypt, Jordan, Lebanon, Mauritania, Morocco, the Palestinian Authority

(aka occupied Palestinian territory: oPt), Syria and Tunisia. For the purpose of brevity, this group is referred to hereinafter as SMAC (southern Mediterranean Arab countries).

The SMAC are a very diverse group of countries. Politically, some have been and still are in the midst of outright conflict. Economically, others are already facing insolvency due to high public debts or are likely to face it in the not-so-distant future unless they receive support in the form of international assistance, which is often driven by donors' geopolitical considerations. The food insecurity resulting from the Ukraine-Russia war is affecting some of the SMAC more than others. Soaring energy prices are benefiting oil producers at the expense of oil importers. So, making generalizations for these countries is as difficult as it is risky.

However, the SMAC share two common characteristics. On the one hand, their statistical base is generally weak: the available indicators are often incomplete, made available selectively or too late, and at times are irrelevant for assessing what they are supposed to diagnose. On the other hand, the SMAC have never been short on knowing (or being told) what they should do. In a nutshell, they have to do everything, do it better and do it now.

The last two observations drive the present paper, which offers a number of statistics, with the appropriate caveats, in an attempt to infer how policymaking can produce better results in the future compared with the past. The objective is not to add to the already overwhelming long list of recommendations, as none have been omitted since the 1980s, if not earlier. Rather, the aim of this paper is to explore whether there is any misuse of statistics or leaps of faith in

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the region’s development discourse. The coverage is unavoidably eclectic given the shortness of space. The paper therefore focuses, first, on the case of youth and women in the labour market, and then on the interplay between political consideration and economic outcomes from the perspective of innovation, growth, employment creation and sustainability.

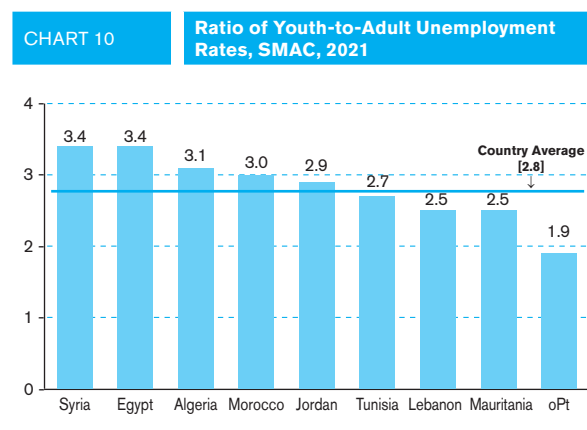
Whether jobs are decent is an additional requirement in all economies, but there cannot be decent jobs, if there are no jobs in the first place

There are three conclusions from the discussion. First, although lack of job creation and the high incidence of unemployment appear to be a youth and gender issue in the SMAC, the true causes of unemployment are structural or, alternatively said, the region’s economies do not create jobs for youth *and* adults and also for women *and* men. Second, as already noted “there is significant evidence that cronyism has led to stagnant economic growth and poor job creation” (Galal et al., 2017). And third, lack of innovation is yet another symptom of an anemic private sector, as are sluggish productivity growth and low wages. In short, the SMAC are facing the future with deeply rooted pre-existing challenges that have not been addressed for decades. It remains to be seen whether the governments in the region will address the emerging challenges differently to in the past or focus on short-term crisis management, as they did after the global financial crisis (Tzannatos, 2010) and the Arab uprisings (ILO, 2012).

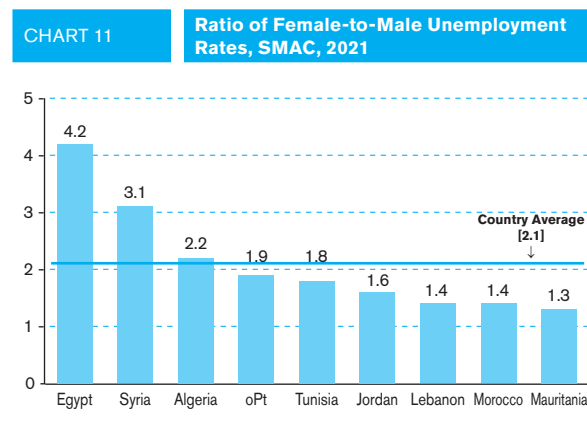
Unemployment Is More an Adult and Male Issue

Job creation is a surefire way to reduce unemployment. Whether jobs are decent is an additional re-

quirement in all economies, but there cannot be decent jobs, if there are no jobs in the first place. So, focusing on the former, there is nearly universal consensus that “Unemployment in this [MENA] region remains, by and large, a phenomenon affecting young people between 15 and 24 years old and, more *particularly*, [emphasis added] young women.”² This is based on the premise that the youth and women’s unemployment rates are much higher than those of adults and men (Chart 10 and Chart 11). In fact, among the SMAC, the youth unemployment rate is 2.8 times higher than the adult unemployment rate, the two rates averaging, respectively, 30.5 percent and 11.3 percent. And the female unemployment rate is nearly double that for men, the two rates being, respectively, 22.4 percent and 12 percent.



Source: ILO modelled estimates 2022.



Source: ILO modelled estimates 2022.

² International Labour Organization (2015) as quoted in Ayadi, Rym and Raul Ramos (2017). See also Suleiman (2021) who agrees that “unemployment is largely a youth unemployment issue.” In a recent publication by the IMF all references to unemployment are about youth only, see Verdier et al. (2022).

The significant youth-to-adult difference is often attributed to the poor quality of the output from the education system or its irrelevance to the needs of the labour market, as well as a lack of skills and motivation among the youth who are also said to be picky when it comes to accepting jobs that do not match their “unrealistic” aspirations – a proposition that can be compared to the fact that the Arab region is the only one in the world where the risk of unemployment increases as the level of education increases.³ With respect to women, another belief is that religious, institutional and social values are responsible for their exclusion from activities outside the home, which are not compatible with persisting patriarchal values.

Country	Year	Female	Male	Youth	Adult
Algeria	2017	35%	65%	36%	64%
Egypt	2020	37%	63%	39%	61%
Jordan	2020	22%	78%	37%	63%
Lebanon	2019	40%	60%	38%	62%
Mauritania	2017	42%	58%	34%	66%
Morocco	2016	30%	70%	36%	64%
oPt	2021	32%	68%	33%	67%
Syria	2010	39%	61%	52%	48%
Tunisia	2017	42%	58%	31%	69%
Average	2018	36%	64%	37%	63%
Total (,000)		2,506	4,653	2,684	4,475
Memo items (%)					
World		43%	57%	35%	65%
Arab League*	latest	41%	59%	33%	67%
South Europe**		51%	49%	17%	83%

* The Arab League includes all 22 Arab countries.

** The South Europe region includes 16 countries.

Source: ILOSTAT: National Sources (countries) and modelled estimates (world and regions).

These factors relate to the employability and/or the preferences of citizens and households, and they may well play a role. The issue is whether that role is an important one as it considers only one part of the labour market (the labour supply side). What is missing from this narrative is the labour demand side. Employability and preferences on the labour supply side do not create employment. The question therefore becomes, if there were enough jobs for youth and women so that their unemployment rates could be reduced or even eliminated, would this result in a

significant reduction in unemployment? Or to put in another way, is unemployment predominantly a school-to-work transition and gender issue?

The answer to these questions is mainly “no.” And this is because adults and males constitute a much larger share of the unemployment pool than youth and females. The difference between adults and youth is 1.8 million and 2.1 million between males and females (Table 9). In ratios, there are 67 percent more unemployed adults than unemployed youth, and 86 percent more unemployed males than unemployed females. The share of unemployed youth in the total unemployment pool among the SMAC (37 percent) is practically comparable to the world average (35 percent) and also to that of all Arab countries (33 percent). And although in South Europe the share of unemployed youth is half that of the SMAC, this is largely because almost half of the total population in the southern Mediterranean (47 percent) is under the age of 24, with the majority of this share (31 percent of the total population) below the age of 15 years. This makes the SMAC one of the youngest regions in the world, after sub-Saharan Africa, where 62 percent of the population is under 24.⁴

Creating more and better jobs is mainly about increasing market contestability to ease firm entry, and to ensure efficient growth and firm exit

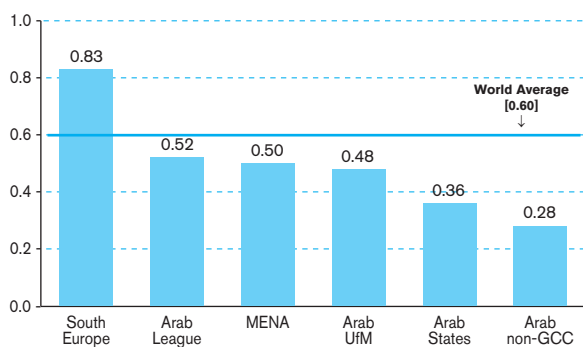
However, and rather unexpectedly, in the rest of the world and also among southern European countries, female unemployment is more serious than among the SMAC: the share of females in the unemployment pool is only 36 percent among the SMAC, but 43 percent in the world, and more than half (51 percent) among southern European countries. To some extent, the low share of Arab women in the total unemployment pool is the result of their low labour force participation rate. This is a labour supply issue and calls for different policies than those relating to unemployment.

³ Quoted from Ghafar (2022).

⁴ World Bank Development Indicators.

As for the “particular” phenomenon of unemployment affecting especially young Arab women, the number of unemployed young Arab women is significantly smaller than the number of unemployed young Arab men (Chart 12). The difference is strikingly smaller than that found in southern European countries and well below the global average. In terms of numbers, there are nearly one million (974,000) more unemployed young Arab males than young Arab females. Moreover, adult females have a higher share of unemployment among females than young women.

CHART 12 Ratio of Female/Male Unemployed Youth



Source: ILO modelled estimates 2022.

Youth unemployment is a serious issue. Although attention paid to it (and also to women) is not misplaced, it misses the point that total unemployment is a bigger issue as it also affects adults and men. Focusing only on the unemployment *rate* is not a reliable indicator of the magnitude and causes of unemployment.⁵ For example, it leads to the (in part justified) inference that the problem of youth unemployment is the employability or attitudes of the youth. If this reasoning is accepted, then the problem is delegated to the education system, teachers and families, that is, the supply side of the labour market. Similarly in the case of women, it gives undue weight to social factors while a prime determinant of female employment during the course of development is how tight labour markets are (on the labour demand side) and how high wages are to attract women into the labour market (on the labour supply side). All in all, the level

and type of employment and therefore unemployment depend on the level and structure of aggregate demand, in short, it is primarily a macroeconomic issue. Specific labour policies, including active labour market programmes, can help, but only within the limits set by the rate and type of economic growth. This is discussed below.

The Big Issue: The Capture of the Private Sector

Governments can affect job creation, reduce informality and promote entrepreneurship and innovation through enlightened visions and effective policies. This depends critically on whether governments are prepared to create a level and transparent playing field in the private sector compared to preserving the political control and economic interests of a small group of insiders. The Arab countries, and within them the SMAC, have generally failed to let the private sector off the leash. This has led to the creation of “rentier states” rather than “productive states” (Raz-zaz, 2013). The role of governance cannot be over-rated in this respect.

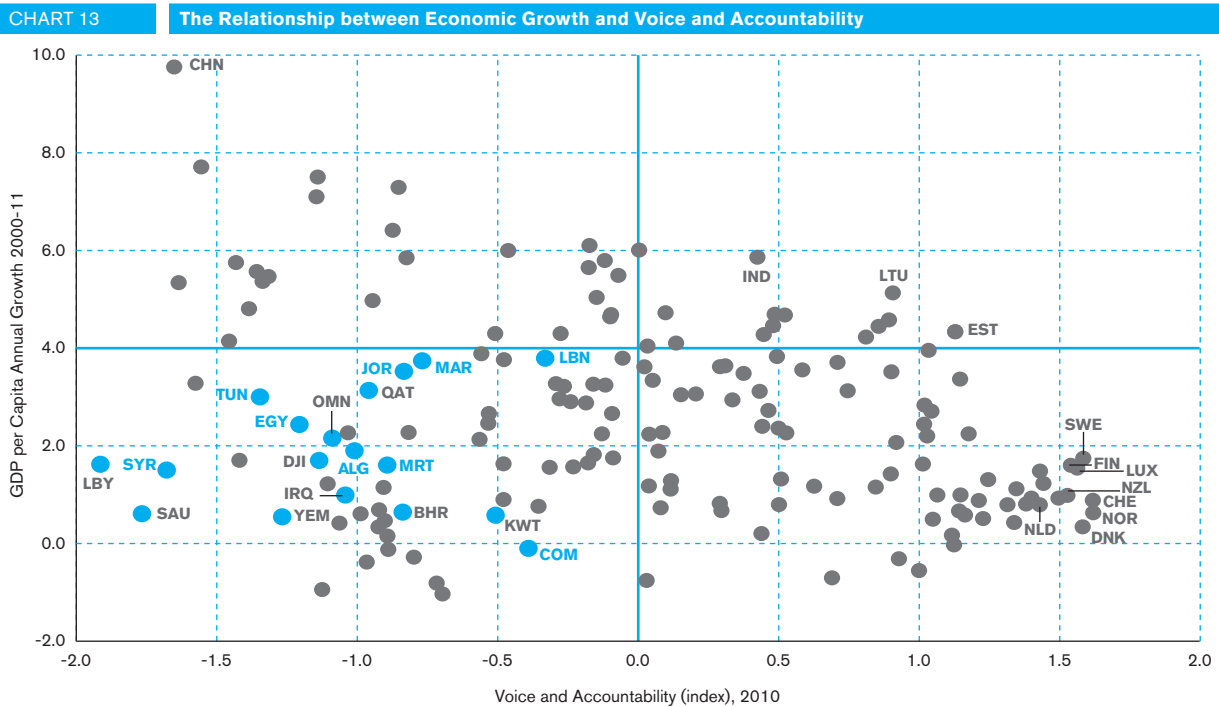
A common characteristic across Arab countries, including the SMAC, is their anocratic, if not outright autocratic, governance. In addition to political oppression, economic growth has also been depressed. Focusing on the decade preceding the Arab uprisings in 2011 is illuminating. By that year, the impact of economic reforms that had been initiated in the early 1990s reached their potential. Moreover, that decade is void of the shocks that have taken place since, including 2008’s global financial crisis, the Arab uprisings in 2011 and the more recent pandemic. Thus, the 2000s can be considered to be indicative of the course of development as envisaged by policy makers among those countries.

Chart 13 shows the relationship between per capita economic growth and the “voice and accountability” index as a proxy of the quality of governance. Per capita incomes are relatively easy to measure (GDP/person) and the data have been derived from the IMF. The index of Voice and Accountability (VnA) is de-

⁵ “The reason for singling out the youth (15-24 years old), is that their *rates* [emphasis added] of unemployment are among the highest in the world ... This phenomenon is largely a problem of youth insertion into the labour market ... To address the problem of youth unemployment in the short run, South-Med governments could launch Active Labour Market Programmes (ALMPs).” See Galal et al. (2017)

rived from the joint *Worldwide Governance Indicators Project* of the Natural Resource Governance Institute, the Brookings Institution and the World Bank. The value of the index ranges from minus 2 to 2. The index covers practically all countries in the world, more than 200. In simplified terms, it is based on whether citizens can express their voices, have political rights and can select their governments, whether there is freedom of association or corruption, the role of the military in the political process, whether the official statistics are reliable or manipulated and so on. Overall, the relationship between economic growth and VnA is negative. However, this should not be taken to imply that there is a negative tradeoff between these two variables. Rather, this is related to the fact that faster economic growth (increase in average per capita incomes) is more common in developing/low-income countries that have more slack to absorb and can benefit from intensive growth. High income countries have better governance but had fast growth in the past and cannot grow fast forever (the so-called “regression toward the mean”). It is indicative that the countries scoring highest in the VnA index had some of the lowest rates of economic growth, namely, four Nordic countries (Denmark, Finland, Norway and Sweden) together with Luxembourg, the Netherlands and Switzerland.

The most densely populated quadrant is the southwest one that one should better not be in it. It is dominated by two groups of countries, that is, those located in sub-Saharan Africa and the Arab countries. In fact *all* Arab countries are in that quadrant, despite the fact that practically all had introduced various pro-market reforms before 2011. The pro-market reforms since the 1990s produced faster economic growth rates compared to the previous decade, reduced deficits and debts, as well as inflation and unemployment. Still, in a globalizing world what matters is not so much how fast you move, but how fast you move relative to others. The increasingly educated Arab youth could see that they were falling behind in the globalization race with limited opportunities to voice their concerns. Not unjustifiably, economic growth was perceived by Arab citizens to be inequitable following the significant rollback of the state from the provision of social services and in view of the preferential treatment granted to politically connected firms and crony capitalists, who effectively captured the privatization process (Diwan et al, 2016 & Reijkers et al, 2014). The grip of state-owned enterprises on the economy, as well as that of politically connected firms, are widely acknowledged to be important reasons for the lack of dynamism of the private sector, especially among



Source: IMF (GDP per capita) and Worldwide Governance Indicators Project (VnA).

small enterprises (UNDP, 2022). This has an impact on how growth affects household incomes. Households in Arab countries have the second lowest rate of growth pass-through in the world after sub-Saharan Africa: For every 1 percent growth in the private consumption expenditure component of GDP, only one-third of it is experienced at household levels (Abu Ismail et al., 2022)

The Arab states can therefore be described as hybrid economic systems driven by governance based on political and economic exclusion. They have placed more emphasis “on accommodating the interests of the politically connected rather than serving the purpose of productivity gains and job creation”(Galal et al., 2017). In such an environment the private sector is subjected to cronyistic and informal arrangements, whereby institutions are weak and non-transparent rules shield insiders against competition.

Under such conditions, economic growth is lower than it ought to be, leading to lower levels of job creation and inferior employment conditions (including wages). The evidence regarding SMAC suggests that economic policies have “suffered from being fundamentally inward looking, promoting old rather than new products, with no time limits on the duration of infant industries until they grow. This policy also seems to have encouraged rent-seeking behaviour and cronyism” (Sekkat, 2010).

Innovation: Another Victim of Constrained Private Sector Development

All in all, the failure to achieve fast economic growth can be traced to many causes, which could be summarized as a failure to promote a dynamic private sector, with its corresponding consequences on not only the labour market, but also on innovation. While small firms are predominant in the region, they “tend to stay small, and large firms stay large, resulting in a ‘missing middle,’ the component of the private sector that tends to exhibit the greatest degree of innovation in other countries” (Galal et al., 2017).

The positive relationship between innovation and development is well established (WIPO, 2021). The global innovation index takes into consideration institutions, human capital and research, infrastructure, market sophistication and knowledge, technology and creative outputs. It then groups the underlying in-

dicators into a single score and ranks countries accordingly (Table 10).

TABLE 10 Global Innovation Index 2021 Rankings			
	Rank	Score	Index
Switzerland (top)	1	65.5	100
Median country	66	31.8	49
Tunisia	71	30.7	47
Morocco	77	29.3	45
Jordan	81	28.3	43
Lebanon	92	25.1	38
Egypt	94	25.1	38
Algeria	120	19.9	30
Angola (last)	132	15.0	23

Notes: No data for Mauritania, oPt and Syria.
Source: WIPO 2021.

Some SMAC countries have made definitive progress towards promoting innovation, such as Morocco, which has recently been classified as a relatively top performer (8th among the 34 lower-middle-income groups of countries as classified by the Global Innovation Index 2021). This progress has put Morocco practically on a par with Tunisia and Jordan. Yet all the Arab countries in Table 10 are below the median country in rank and score, with Lebanon, Egypt and Algeria being significantly lower.

More generally, the MENA region has one of the lowest R&D expenditures. Only 15.2 percent of firms in the MENA region spend on R&D, in comparison with 27.4 in South Asia and 25 percent in Africa. More worrying is the fact that the region’s trend in innovation performance is declining. In addition to factors arising from the development model pursued by governments, the low innovation performance has been attributed to low government support for innovation, science and technology, weak institutional frameworks, lack of investment in knowledge-intensive services and knowledge creation, the fragmentation of innovation systems, slow adoption of the evolving global knowledge and technology and, unsurprisingly, a weak link between innovation inputs and innovation outputs (Morrar, 2019).

To summarize, creating more and better jobs is mainly about increasing market contestability to ease firm entry, and to ensure efficient growth and firm exit. However, “most MENA countries lack market contestability, favouring incumbent firms (SOEs or private) over new entrants” (World Bank, 2012).

Concluding Remarks

Countries do not usually default. They typically avoid this with assistance from international financial institutions (IFIs) and donor support. The fiscal effects of the pandemic in the SMAC, arising from elevated public spending to support economic activity and citizens' welfare, came on top of the spending spree that followed the Arab uprisings (ILO, 2012). Economic growth rates and job creation are expected to drop following the war between Ukraine and Russia and the looming stagflation pressures. Among the SMAC, and others, policies to contain inflation may pressure their already weak fiscal accounts, worsen financing conditions, spur capital outflows and add to growth headwinds, amid already elevated debt levels. Rising prices may raise social tensions in countries with weak social safety nets, few job opportunities and unpopular governments (Kammer et al., 2022). In addition, neighbouring SMAC may face disrupted trade and supply chains, reduced remittances, as well as continuing refugee flows.

The impact on employment could be severe. Job creation is likely to be adversely affected by fiscal responses to contain deficits and debts, which are only too well known to accompany austerity measures. Thus, not only will new entrants to the labour force face limited opportunities, but they will also add to the existing large pool of unemployed women *and* men, youth *and* adults. Labour policies can have only a limited impact (and many require additional fiscal outlays). Perhaps little can be done in this respect in the short run until the fiscal situation is contained and economic growth rates resume. However, it should be recognized that unemployment for a particular group is not isolated from the unemployment of other groups: different types of labour (and capital) can substitute each other. Examining unemployment (a quantity) without due regard to wages (prices) is bound to lead to misplaced policies.

In the case of SMAC (and other Arab countries), wages are relatively compressed and the returns to education are among the lowest in the world (Tzannatos et al, 2016). This may of course relate in part to protective legislation for older workers – something that

can easily be identified and addressed. But from an economic perspective, unless there is a sharp differential between youth and adult wages, employers would prefer workers with more experience. Either way, Arab employers use relatively basic labour-intensive production techniques, taking advantage of the presence of surplus labour, which results in low wages. Their training offer for workers is among the world's worst. All these symptoms suggest that the education of job seekers is not a real constraint at present, though they may well become so in the rather distant future, as it takes a long time for the private sector to modernize and adopt knowledge-intensive production techniques. Another symptom that indicates that a lack of skills is not really a labour market constraint is that many young Arabs emigrate and thrive in countries that are more technologically advanced (Kawar & Tzannatos, 2013). In short, they can be employed in more demanding jobs elsewhere, but not in their own countries. All in all, "young people need jobs, and so do their parents" (Kawar & Tzannatos, 2017).

The case of female unemployment (and low participation rate) is different, but not from an economic perspective, if the role of wages, incomes and household decisions are taken into account instead of focusing only on "quantities." If the economy is not creating enough jobs or, from a household perspective, men are more likely to be more permanently attached to the labour force and be paid more than women, it is not surprising (though not always justified) that female unemployment rates will be higher than male unemployment rates.

While it is true that "the unemployment rate of young people in the MENA region of 26%, which doubles the world average, speaks for itself,"⁶ it does not speak for all the unemployed. The unemployment rate in MENA was 10.5 percent in 2019, which was also nearly double the global unemployment rate of 5.6%. Given the limited ability of governments to spur growth through a rise in public spending and monetary easing, future economic growth would primarily come from the private sector. The SMAC have largely failed to create a vibrant competitive private sector. Their development model has not changed markedly even during their better years of the past. The present calls

⁶ IEMed (2020). The latest statistics available indicate the youth unemployment rate was indeed 27.2 percent in the MENA region, while the world average was 17.9 percent. See, respectively, www.iemed.org/wp-content/uploads/2021/08/Report-no30_MED-Confederation_Youth-Financial-Inclusion.pdf and <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>.

for bold changes, not marginal ones. With or without political openness, the SMAC should now revise their policies to ensure a level economic playing field and truly promote output diversification and achieve sustainable growth, as there is no room for preserving “the privileges for small elites, tolerating cronyism or neglecting social justice. Are South-Med countries willing and able to meet the challenge? The answer remains to be seen” (Galal et al., 2017). This is also the question posed in this paper.

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