

# WHY YOUNG SYRIANS PREFER PUBLIC SECTOR JOBS

By Nader Kabbani <sup>1</sup>

After pursuing a public sector-led development model for five decades, Syria is moving towards establishing a social market economy. The Syrian government is introducing elements of a new social contract that relies less on government intervention and more on private sector solutions. The government has removed barriers to private sector entry for most industries, as well as schools, universities and banks, and it is reforming formal institutions, including labor laws, the public education system, and social protection programs. Economic reforms have revived the private sector and created opportunities for young people with the knowledge, skills, and motivation needed to better define their careers.

During this transition period, however, high youth unemployment rates have remained a major policy concern, driven in part by the youth bulge moving through the population. In 2007, the unemployment rate among young people in Syria was 19% – lower than estimates for the Middle East and North Africa (MENA) region (22% in 2005), but higher than the world average of 12% (International Labor Organization 2008). Young people in Syria represented 57% of the unemployed

population, and first time job seekers represented 78%. This indicates that, as in other MENA countries, unemployment in Syria is primarily a labor market insertion problem.

As part of its reform efforts, the government has considered reducing the number of public sector workers, but has yet to adopt any major policies in this regard. Economic incentives and institutions continue to induce young Syrians and their families to focus on securing government jobs. In terms of incentives, government jobs offer greater stability and benefit packages than jobs in the private sector. This is especially the case for young women, for whom the public sector provides more flexible working hours and better maternity leave policies. In terms of institutions, public schools focus on preparing young people for national exams, which lead to credentials that increase the odds of obtaining a public sector job, rather than developing key skills demanded by the private sector. After school, young people often find themselves unprepared for the realities of the labor market and typically rely on informal family connections in securing their first private sector jobs or queue up for

## SUMMARY

This policy outlook examines how public sector employment policies in Syria affect the transition from school to work for young people. Framed within the context of Syria's transition from a command economy to a social market economy, the analysis highlights how the country's traditional socioeconomic model still holds sway and drives employment preferences among youth. Despite the country's effort to shift away from government interventions to private sector solutions, incentives in the public sector – higher wages, benefits, pension coverage, and job security – continue to reinforce preferences among youth for public sector employment. The policy outlook concludes with a set of recommendations to aid Syria's transition and create new opportunities for young people.

government jobs (Kabbani and Kamel 2007).

From a public policy perspective, individuals' strategy of focusing on securing a public sector job does not correspond well with the government's attempts to transition to a social market economy or to better integrate the country into the world economy. A young adaptive workforce that is less focused on obtaining public sector jobs would be better able to take

<sup>1</sup> The material presented in this brief draws on work with Noura Kamel of the American University of Beirut and Leen Al-Habash of the Syria Trust for Development. Thanks are due to Navtej Dhillon, Djavad Salehi Isfahani and others with the Middle East Youth Initiative for their valuable comments and suggestions.

advantage of the demographic “window of opportunity” that could lead to higher economic growth rates. It would also lessen the burden of government wage bills and allow for a greater realization of the benefits of government reform efforts.

This brief examines how public sector employment policies affect the transition from school to work among young people in Syria, basing its findings on official data from Syrian Central Bureau of Statistics’ labor force and household budget surveys.

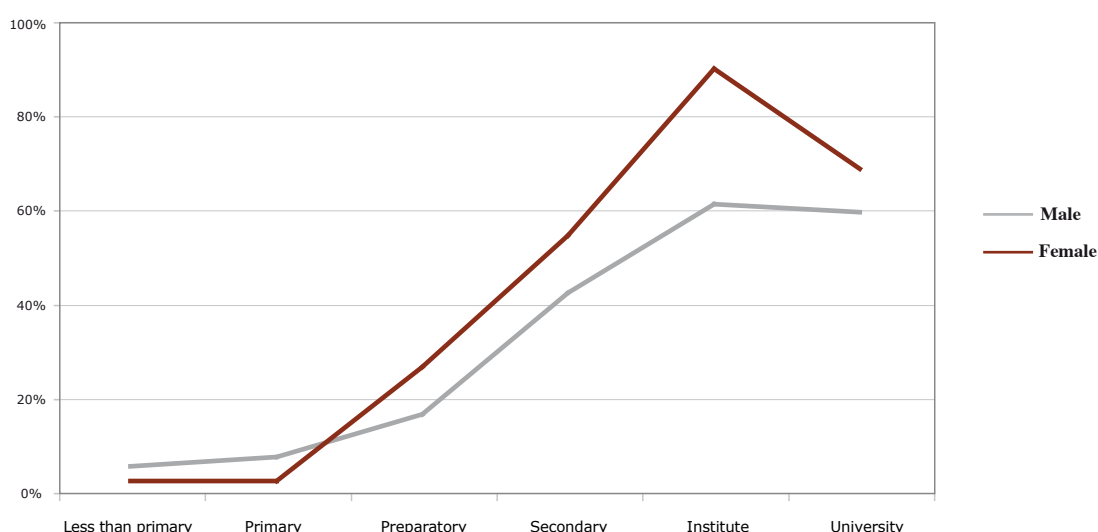
### YOUNG PEOPLE’S INTEREST IN PUBLIC SECTOR JOBS

Evidence suggests that young Syrians prefer public sector to private sector jobs. Findings from the 2003 Unemployment Survey indicate that over 80% of unemployed 15-29-year-olds were interested in public sector jobs and 60% sought jobs exclusively in the public sector. Among unemployed young women, 90% wanted public sector work and 71% were looking exclusively in the public sector (Huitfeldt and Kabbani 2007). Kabbani and Al-Habash (2008) confirm that preference for public sector jobs is higher among unemployed young

women and find that it increases with age and educational attainment. They find that young men are motivated in their job search by family need and that social norms influence the employment choices of young women. The difference between predicted public and private sector wages for unemployed youth is also associated with public sector job preference, especially among women, meaning that job preference is associated with relative expected pay between the sectors.

The expressed preference of young people for public sector jobs must be compared alongside their actual behavior. One way to assess such preferences is to examine the association between higher educational attainment and public sector employment. Young people seek higher levels of educational attainment to increase their chances of securing a stable job with good wages and benefits. Indeed, there is a strong positive correlation between educational attainment and public sector work (figure 1). Among men, the share of workers with public sector jobs increases steadily from 5% among those with less than primary school education to peak at 61% among graduates of intermediate institutes (post-secondary vocational

**Figure 1: Share of Employment in Public Sector by Level of Education (Ages 15-29)**



Source: Authors' calculations

schools) and 59% among university graduates. Among women, the share of workers with public sector jobs increases from 2% among those with less than a primary education to reach 90% among intermediate institute graduates, before dropping to 68% among university graduates.

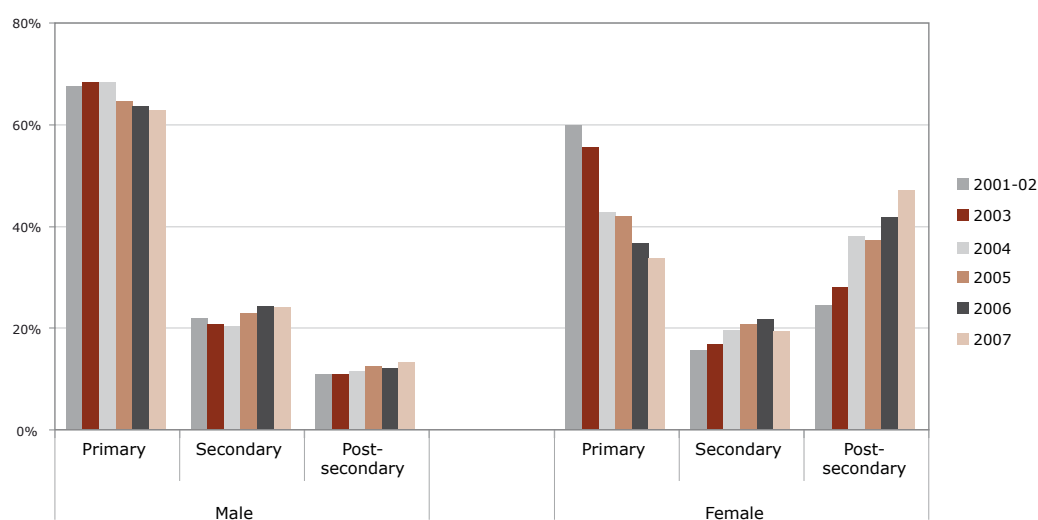
Preferences for public sector work on the supply side correspond with little change over time in regard to the overall share of workers in the public sector, which hovered around 25 – 28% between 2001 and 2007. This share is in line with a regional average of 25%, but is higher than a world average of 11% (Abrahart et al 2002). The share of employed young men working in the public sector held steady at just over 13% between 2001 and 2006, with a slight increase in 2007. Among young women, the trend was strongly upwards. The share of employed young women working in the public sector more than doubled over six years, from 15% in 2001 to 31% in 2007.

The trend among young women appears to have been driven by increases in their educational attainment (making more women eligible for public sector

employment) as well as declines in their labor force participation rates during this period (driven partly by increased school attachment). The share of employed young women who completed post-secondary education nearly doubled from 24% in 2001 to 47% in 2007 (figure 2). This group can be divided into two sub-groups. The share of employed young women with post-secondary vocational (intermediate institute) credentials increased from 17% in 2001 to 30% in 2007 and the share of employed young women with university degrees doubled from 7.9% of the workforce in 2001 to 17% in 2007. As a result, by 2007, nearly half of all employed young women had post-secondary educational credentials.

Small gains in educational attainment were also recorded for young men. The share of employed young men who had completed post-secondary schooling increased from 11% in 2001 to 13% in 2007. However, for young men, increases in educational attainment translated only modestly into increases in public sector employment, keeping in mind that around 95% of young men in Syria are either in the labor force or in school, whereas only around 50% of young women are active in the labor force or in school.

**Figure 2: The Share of Employed Youth Working in the Public Sector by Education**



Source: Authors' calculations

## **PUBLIC SECTOR WAGES AND BENEFITS: A SIMPLE STORY**

The previous section provided evidence that young Syrians prefer public sector jobs to private sector jobs. This section examines some of the incentives and trends behind this observation. We focus primarily on wages and pension benefits.

### *Public vs. Private Sector Wages*

It is well-established that, like other countries in the MENA region, public sector benefits in Syria are higher than those in the private sector. The evidence on wages is less clear. In fact, in 2007, average monthly salaries in the Syrian public sector were 22% higher than salaries in the private sector. Comparing monthly salaries masks differences in educational attainment, hours worked, and levels of experience among workers across sectors. We limit these confounding factors by examining average hourly wages across levels of educational attainment for men and women between 20 and 29 years of age.

In 2007, hourly wages among young men in the private sector were higher than hourly wages in the public sector for those with low levels of educational attainment and those with university degrees (table 1). Hourly wages in the public sector were higher among intermediate institute (post-secondary vocational school) graduates. Young men with preparatory or secondary credentials had similar wages in both sectors.

Our finding of high relative public sector wages among intermediate institute completers is consistent with evidence from other studies. Huitfeldt and Kabbani (2007) find that the marginal rates of returns to education for men with an intermediate institute degree were virtually zero in the private sector, suggesting that the technical

skills acquired there were of little use in the private sector. As noted above, intermediate institute graduates were the most likely group to work in the public sector among both men and women.

In 2007, average hourly wages among young women in the public sector were higher than in the private sector for all levels of educational attainment.<sup>2</sup> It is interesting to note that hourly wages for young women were substantially lower than those for young men in the private sector, but significantly higher than young men's wages in the public sector. The latter finding is driven by lower average of hours of work for women in the public sector compared to men.

A key element in transitioning from a state-led to a social market economy is increasing the attractiveness of private-sector jobs relative to government jobs, especially in terms of wages and benefits. Yet, despite a stated interest in public employment retrenchment policies, the Syrian government has increased public sector wages substantially since 2000. Between 2001 and 2007, the average nominal hourly wage of a public sector worker between 20 and 29 years of age increased by 70%, whereas the average hourly wage of a private sector worker increased by only 50%.

These wage differences may mask changes in the composition of the workforce. Thus, we break the analysis down by educational attainment, still focusing on 20-29 year olds. Between 2001 and 2007, public sector wages among young men increased more than private sector wages for all education levels with the exception of those with primary schooling or below. Among young women, public sector wages increased more than private sector wages for all education levels, making the

<sup>2</sup> The sample size for young women with primary education or less working in the public sector was too small to include a point estimate. However, in line with other education levels, the estimate we obtained was higher than that for the private sector and increased to a greater degree between 2001 and 2007.

**Table 1: Nominal Hourly Wage Rates and Trends by Sector (Ages 20-29)**

	2006/2007				% Change (2001/02 - 2006/07)			
	Male		Female		Male		Female	
Educational Level	Public	Private	Public	Private	Public	Private	Public	Private
Primary or less	26.3	43.3	..	27.8	16%	51%	..	25%
Preparatory	40.6	41.6	42.7	25.2	65%	47%	64%	-1%
Secondary	43.5	43.4	46.9	34.7	70%	26%	62%	38%
Intermediate institute	54.3	45.8	65.0	37.2	70%	54%	79%	10%
University +	61.9	66.8	85.0	63.6	59%	56%	86%	76%
Total	42.1	43.5	65.0	34.2	59%	50%	91%	39%

Source: Central Bureau of Statistics; authors' calculations for change between 2001 and 2007

differences between the hourly wages in the public and private sectors even more pronounced.

Our finding that public sector wages increased faster than private sector wages makes sense in light of announced government increases (Kabbani and Al-Habash 2008). In 2003, almost half the public spending increase came from an increase in the wage bill. In 2004, the government increased wages by 20% for 2 million workers and retirees at an estimated cost of 2.3% of GDP. In early 2008, the government increased public sector wages by 25% and required the private sector to raise wages by 15%, to counter rising food and energy prices (2008 wage increases are not reflected in table 1).<sup>3</sup> Despite evidence presented in table 1, wage increases have had progressive elements; the public sector minimum wage more than doubled over this period, from 2,115 Syrian pounds (\$42) per month in 2001 to 4,805 Syrian pounds (\$96) per month in 2006.

Thus, in terms of hourly wages, public sector jobs, which were already more attractive than private sector jobs for most groups, have become even more attractive

over time. These findings do not bode well for getting young people to focus less on obtaining a “good” public sector job and more on looking for work in the private sector.

### *Pension Coverage*

In addition to wages, workers care about benefits, work conditions, job security and other factors. Job security is higher in the public sector, where it is virtually impossible to dismiss a worker. However, rigid labor laws and a cultural norm against laying off workers contribute to some degree of job security in the private sector. Work conditions are widely believed to be better in the public sector, especially for young women who worry about possible discrimination in the private sector. Benefits are also known to be higher in the public sector. Since Syria's education and health systems provide universal education and medical coverage, the main benefit to examine is pensions.<sup>4</sup>

Using data from the 2006-2007 Household Income and Expenditure Survey, we find that 89% of young public sector employees between the ages of 20 and 29 indicated

<sup>3</sup> Most wage increases were facilitated by higher oil revenues. This introduced elements of irreversibility in the budget accounts as oil proceeds are unlikely to remain high while higher wages will not easily be reversed (Kabbani and Tzannatos 2006).

<sup>4</sup> Universal education and medical benefits make public sector reforms that much easier and less costly for the government to consider. Also, there is one factor that we were not able to examine with available data: job advancement and wage progression opportunities. This aspect could well favor private sector workers, as is the case among university graduates in Morocco (Boudarbat 2008).



that they were registered with government's the pension system. (Full-time government employees are covered, but workers on temporary contracts are often not.) By contrast, only 8.6% of young private sector workers indicated that they were registered in the pension system (figure 3). Pension coverage among young private sector wage workers increases with level of educational attainment, but never surpasses 50%.

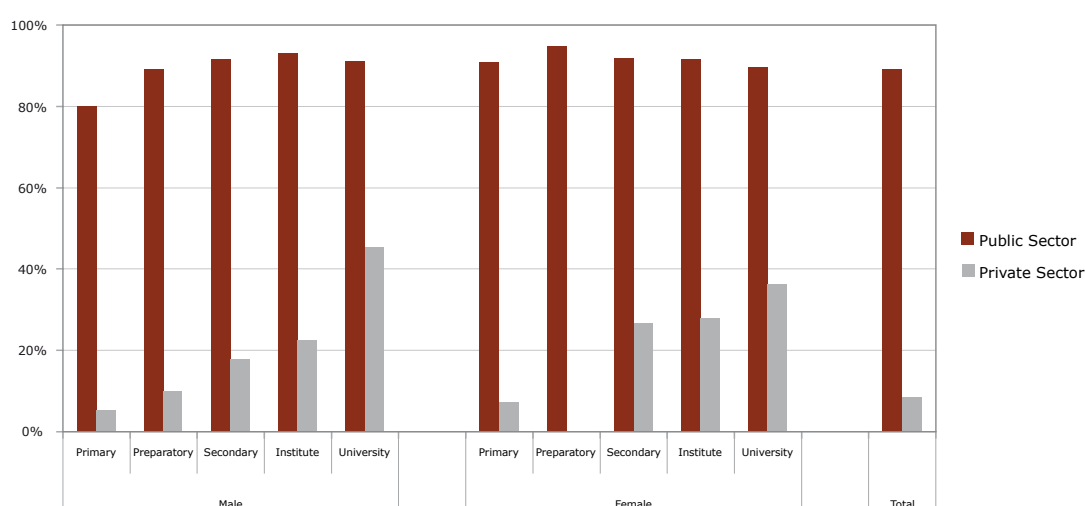
This finding makes sense: Syria has one of the highest pension contribution rates in the region (15% of workers' salaries paid by the employer and 10% paid by the employee), which creates an incentive for private sector employers to not register their workers. As a result, Syria also has one of the lowest coverage rates in the region, reaching less than 30% all working-age workers (wage and non-wage).<sup>5</sup>

In Syria, pension benefits equal 75% of the average salary for the last two years of work. Eligibility for benefits begins after 15 years of service, at age 55 for women and 60 for men. Early retirement

eligibility starts 5 years earlier for those with 20 years of service or at any age after 25 years of service. We estimate the present value of wages plus pension benefits for public and private sector workers, assuming that wages increase at 5% per year for all workers, a discount rate of 5%, that retirement starts at age 55 for women and 60 for men, that average life expectancy is 75 years, and that those covered by the system in their 20s will continue to be covered and those not covered will continue not to be covered. We hold constant differences in effort by benchmarking hours worked at 40 hours per week.

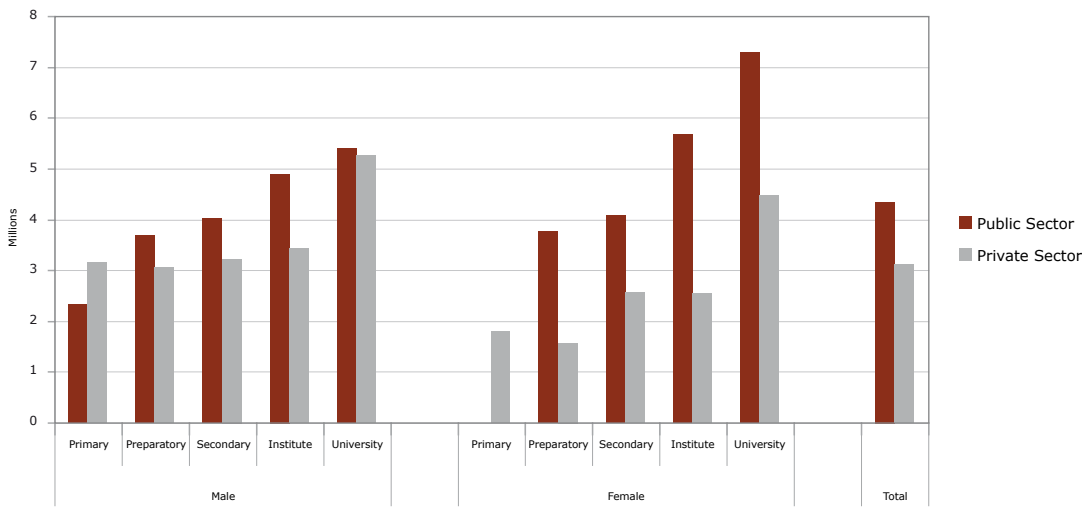
Under these assumptions, our analysis suggests that lifetime earnings for young public sector workers exceed those for private sector workers among all groups except men with a primary education or below. The differences were greatest for young women across all education levels (figure 4). These findings help explain the attraction of public sector work for young job seekers, especially young women.

**Figure 3: Share of Young Wage Workers Covered by Pension System (Ages 20-29)**



Source: Authors' calculations

<sup>5</sup> The 10% employee contribution covers 7% for the regular pension and 3% for occupational hazards. A second system provides casual workers with insurance against disability and death due to occupational hazards. This system is financed by a voluntary 5% of salaries paid by workers. We do not include it here.

**Figure 4: Present Value of Lifetime Earnings with Pension Benefits (Ages 20-29)**

Source: Authors' calculations

## CONCLUSIONS AND RECOMMENDATIONS

In this brief, we argue that economic incentives and institutions (both formal and informal) have encouraged young Syrians to prefer public sector jobs over private sector jobs. Job preferences among young job seekers strongly favor the public sector. Also, educational attainment is highly correlated with employment in the public sector. The findings are consistent with the idea that higher educational attainment is one way of accessing “good” public sector jobs.

Despite stated government interest in public sector retrenchment policies, the share of workers in the public sector has remained steady over the past seven years, at around 27%. Average hourly wages of young men are similar in both sectors, with only less educated workers and university graduates receiving higher wages in the private sector. Average hourly wages of young women are significantly higher in the public sector for all levels of educational attainment. When expected pension benefits are included, the earnings gap between public and private employees widens and the only remaining

private-sector wage advantage is for young men with an elementary education or below. Recent public sector wage increases have widened the wage gap further, making government jobs even more attractive.

The higher levels of wages and benefits offered through public sector jobs make it in the private interest of young people to follow traditional school-to-work trajectories in order to secure a government job. For young Syrians, this means focusing on their studies and doing well on national exams. However, given that Syria has initiated a series of economic reforms to move the country towards a social market economy, we argue that it would be socially optimal to align incentives so that young people are more focused on developing key skills and technical abilities necessary to succeed in a global economy.

The Syrian government, and other countries transitioning from command economies with strong traditional institutions to more open economies, should consider removing disincentives to seeking private sector jobs. In the case of Syria, this could entail:

- Slowing the pace of future public sector pay increases, to bring public and private sector wages into alignment. To the extent that public benefits remain high, public sector wages could eventually be set below private sector wages.
- Reforming the pension system, by lowering contribution rates and basing benefits on average work-life incomes rather than the last two years of work. This would make it easier for private sector employers to join the system. Pension reforms should be initiated soon to take advantage of the youth bulge entering the labor force, resulting in more people paying into the system compared to beneficiaries.
- Reforming the public and private sector labor laws and removing regulations that ensure virtual life-long employment guarantees. This reform could involve the government introducing a new social contract in which public sector work is seen as a temporary public service rather than a life-long entitlement.
- Taking steps to reduce wage and employment discrimination against women in the private sector by enforcing domestic laws and international agreements.
- Introducing more flexible admissions policies to public post-secondary institutions, for example, by allowing extracurricular activities count towards admissions.
- Developing labor market information systems that track career opportunities and identify occupations with good prospects, and making the information accessible.

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