

## **Labor Market and Employment in IRAN**

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### **Part A. Overview of Iranian Economy**

Islamic Republic of Iran (hereafter IRAN) is an important country in the Near East Region. With a population of 63 million, it is the most populous country in the region, and the 16th most populous in the world. With a GDP of US\$111 billion, IRAN is the second largest economy in the region. It is also the second largest OPEC oil producer and gas. IRAN is progressively entering emerging from a long period of turmoil, marked of by the destructive war with Iraq, post-revolution, international isolation, and deep economic instability. As an ancient civilization, and an internationally important cultural pole, it exerts a great deal of

progress, and greater integration into the world economy will not only bring benefits for the Iranian population but will also have important spill-over effects for the region.

IRAN is currently in the midst of a major process of economic re-orientation, and important evolution of its social and institutional system. This change is taking place in the context of a open debate with wide participation. In March 2000, the Parliament approved the Third Five-Year Development Plan (FYDP), which provides the broad directions of a wide-ranging program of economic reforms and social priorities over the period 2000-05.

Macroeconomic stability and sustainability, and sufficient progress in the key areas of economic policy reform are critical to putting IRAN on a sustainable growth path,

notably in improved private sector environment, financial sector, and pricing system reforms. On the in improving its relationships with the rest of the world – which constitutes a major – is a key factor in opening economic and financial opportunities for IRAN and in ending its international isolation, which, among other factors, has contributed to the upheavals of its recent economic history .

## **II. Country Context and Recent Developments**

### **Overall Context**

Since the election of President Khatami in 1997, IRAN has been undergoing a significant evolution, both internally and in its external relations. On the domestic side, IRAN enters the new century with a difficult, but most animated debate about its future based on continuing progress in granting a greater role to civil society and the prevalence of the rule of law. The municipal elections held in 1999, which brought elected representation to the lowest levels of government, was a significant milestone. On the international side, IRA

region and with Europe, Japan, and the rest of the world. These developments, if sustained, could open significant prospects for the future economic integration of IRAN with the world economy.

### **Social Context**

Since the 1979 Revolution, Iran has given strong and special emphasis to human progress to-date. As a result of major investments in the social sectors over the last 20 years with virtually universal education and extensive health coverage, and an active Government distributive

strategy through direct transfers and indirect subsidies, the proportion of the population living under the poverty line has fallen significantly from 47% in 1978 to 15.5% now. Virtually all social indicators have shown improvement to the point where Iran now ranks at or near the top of comparable countries (Table 1).

**Table 1. Selected Social Indicators**

	<b>IRAN 1991</b>	<b>IRAN 1997</b>	<b>MNA region</b>	<b>LMI countries</b>
Population growth rate (%)	2.2	1.4		1.6
Infant Mortality (per 1,000)	47	26	54	60
Illiteracy Rate	36	27	34	26
Female Illiteracy (% of age 15-24)	18	10	22	29
Gross Primary School Enroll. (%)	112	98.4	92	101
Male	118	102	103	na
Female	106	95	89	na
Gross Secondary School Enroll.	55	77	60	64
Male	64	81	69	70
Female	46	73	59	na
Access to Safe Water (%)	50	95	87	75

**Sources:** Data provided by the Iranian Statistical Office, World Development Indicators 1999, UNESCO, and World Bank staff estimates.

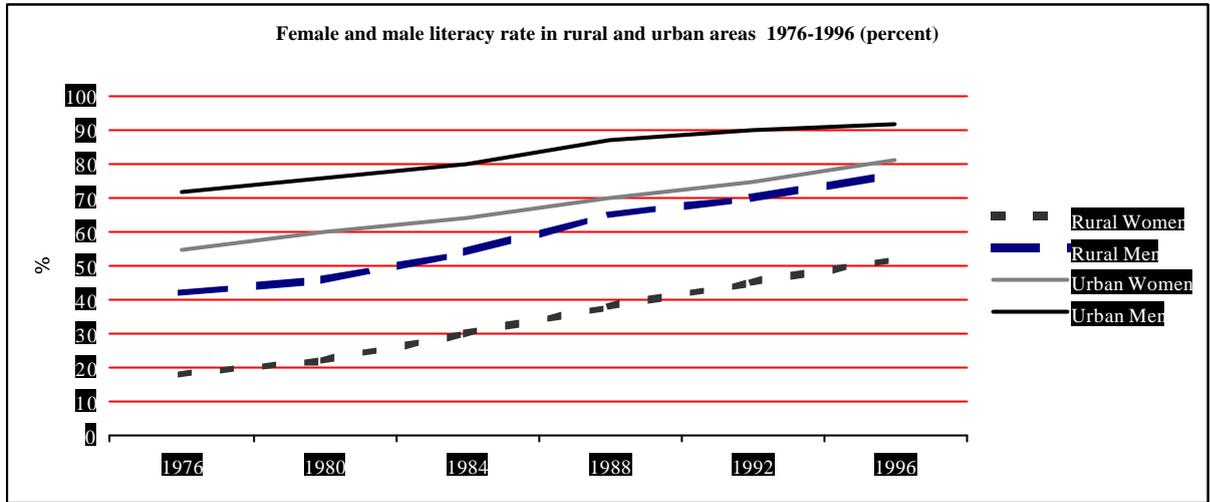
MENA is short for Middle East and North African Countries and LMI stands for Low and Middle Income Countries.

\* The drop in the rate of enrollment could be explained by the increase in private schooling.

The statistics on enrollment capture only attendees of public schools.

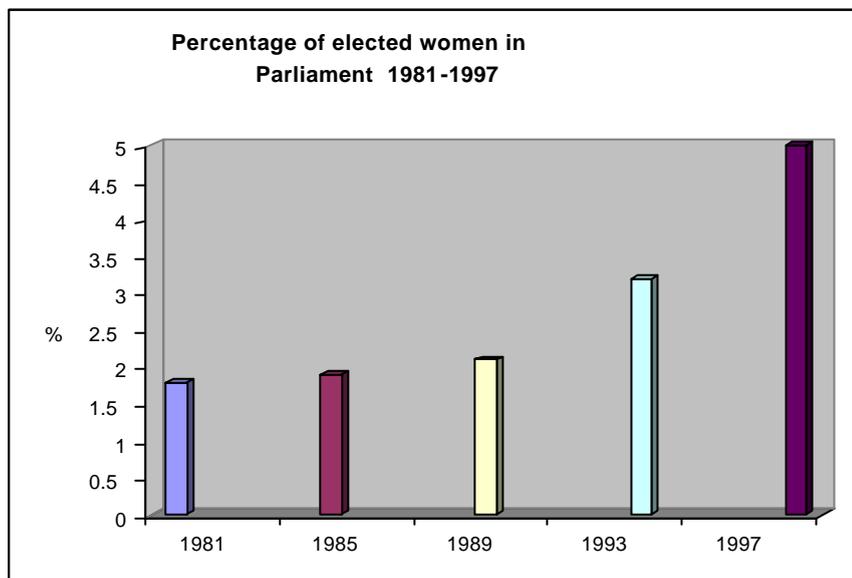
Of particular note is the closing of the gender gap in education, where enrollment rates for boys and girls show only small differences, in literacy, and in political representation (see Graph 1).

**Graph 1. Closing Gender Gap--literacy**



Source: Plan and Budget Organization, and UNDP: Human Development Report of the Islamic Republic of Iran, 1999.

**Graph 1. Closing Gender Gap Parliamentary Election**



**Economic Context**

**A stabilizing macroeconomic situation:** After a long period of instability and

large external and internal imbalances that reflected Iran its external difficulties, and its limited access to external financing, the macroeconomic situation has recently improved significantly. During 1999-2000 the budget registered a surplus of 1% of GDP, up from a deficit of 67% in the previous year. A budget surplus of 12.6% of GDP is estimated for the Iranian year 2000-01 which has ended in March 20, 2001. The budget surplus (equivalent to \$8 billion) has been allocated to the newly created Oil Stabilization Fund. The balance of payments difficulties that have marked most of the past decade have eased. A current account surplus of 4.3% of GDP was registered in 1999-2000, and a surplus of about 14% of GDP is estimated for the Iranian year 2000-2001, driven by a trade surplus of \$14 billion one of the largest ever. Foreign exchange reserves are building up to more than 10 months of imports. Inflation fell to under 20%, a level it held over the past two years. Progress in reducing inflation in the near future will, however, remain limited because of ongoing liberalization efforts, the scaling down of subsidies, and the process of unification of the exchange regime.

While the rebound in oil prices, and to a certain extent the start of implementation of reforms contributed greatly to these positive developments, the progress toward macroeconomic stability is being strengthened through higher commitment to fiscal responsibility and by the significant fall in the debt stock and debt services. Fiscal sustainability, indeed, is being strengthened by the institution of the newly created Oil Stabilization Fund and the commitment of the Government under the FYDP to a balanced budget stance based on prudent projections of oil prices and revenues<sup>1</sup> over the period of the Plan. The fiscal situa

external debt profile. The annual total debt service (including short term debt services) has fallen to US\$6.9 billion at the end of the 2000-01 Iranian year, down from an average of about US\$11.5 billion during the last 4 years. It is projected to decrease to US\$5 billion thereafter. The debt stock is also sharply reduced, and has fallen to about US\$8.4 billion at

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<sup>1</sup> Projected foreign - exchange revenues from oil exports in US\$ billion by the FYDP which are used as a basis for the balanced budget for the Iranian years 2000/1 to 2004/5 are: 11.09; 10.86; 11.05; 11.57; and 12.08 respectively, corresponding to price levels of between US\$15-17 per barrel.

the end of the 2000-2001 Iranian fiscal year, down from US\$22 billion in 1995-96.<sup>2</sup> The end of the debt-crisis, which has dominated much of the economic scene in the last few years, is an important development for the Iranian economy. It opens the prospects for a more stable and sustainable macroeconomic position in the future, and provides a solid

Year Development Plan (FYDP).

Despite improvement in macroeconomic stability, Iran faces the major challenge of accelerating growth rates. During the past five years, growth has averaged a mere 3% per annum, which is inadequate to secure sufficient jobs for the more than 700,000 additional job seekers that come to the job market annually, not to mention the stock of unemployment (16%). Despite the significant accomplishment in bringing population growth to 1.4%, the labor force is still growing at 4.5% per annum because of the relatively young population. Iran needs to secure a GDP growth rate even higher than the 6% rate targeted in the current Plan.

**First Five Year Development Plan (1990-95):** The first attempt at reform started after the war with Iraq and within the framework of the First FYDP covering the period 1990-95. Iran embarked on a large infrastructure reconstruction program with total investment ranging from 30 to 35% of GDP. During this period, Iran also pursued an aggressive agenda of economic policy reform, including decontrolling domestic prices, removing many trade restrictions, liberalizing the foreign exchange system, and initiating a privatization program of public enterprises. These policies, along with the reconstruction program and an expansionary fiscal policy in support of an ambitious social program, resulted in an impressive 7% average annual growth during the Plan period, and a significant improvement in social indicators, which put Iran in the forefront of best performers of its income category, and of the MENA region. This over-

limited access to longer-term external financing, the large current account deficit was

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<sup>2</sup> Plan and Budget Organization, and UNDP: Human Development Report of the Islamic Republic of Iran, 1999.

reflected in a surge in short-term debt and excessive drawing on foreign exchange reserves. In 1994, when the bunching of short-term debt coincided with lower than expected oil prices, an external payments crisis emerged. Large payment arrears led to a series of reversals of the policy reforms undertaken, including the reinstatement of multiple exchange rates, and the halting of the privatization process as the unemployment and social situation worsened.

**Second Five Year Development Plan (1995-2000):** During the Second FYDP,

of 3% per annum, below the projected 5.1% in the Plan. In addition to the structural impediments, growth was mostly constrained by the excessive compression of imports (reaching up to 50% in some years) needed to make room for external debt repayments as

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macroeconomic situation left little leeway to address the structural reform issues.

Macroeconomic instability was further heightened with the extension and intensification of external economic and financial sanctions on Iran. This dampened expectations and triggered a run on foreign exchange and consumption goods markets that induced a sharp depreciation of about 50% of the free exchange rate to Rls 6,200 per U.S. dollar, and a surge in consumer prices by 14% during April/May 1996, bringing inflation for the year to 49%. In yet another attempt to control the foreign exchange crisis, the authorities raised to 100% the export repatriation and surrender requirement, and ordered all foreign exchange transactions to go through the banking system, effectively ending the non-bank foreign exchange market. During the subsequent years of the Plan, the bunching of repayments of the rescheduled debt was again exacerbated by a sharp drop in oil prices in 1998/99, inducing a second external payment crisis and leading to another bilateral rescheduling. The collapse in oil revenues also led to a fiscal deficit of 6.7% of GDP in 1998/99 in spite of drastic cuts in capital expenditures and delays in implementation of public investment projects.

### **III. Country Development Priorities and Progress**

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FYDP (2001-2005) approved by the Parliament last year. The Plan aims at a growth rate of 6% per annum during the Plan period. At the same time, the Plan continues the strong emphasis of the past on social development and equity. To achieve its objectives of raising economic growth potential, increasing the living standards of the population, and reducing unemployment, the Plan envisages a wide range of structural reforms aiming at a balanced and gradual transition to a market economy. While greater private investment is expected to provide the basis for more rapid growth, the Plan gives special emphasis to agricultural and rural development, and housing as the key sectors underpinning the growth with distribution objectives. Both of these sectors have not only potential for growth but also for job creation and poverty alleviation given their higher labor-intensity, in particular of unskilled and poor workers. The Plan also gives particular priority to the environment, including managing air and water pollution and the preservation of natural resources. These aspects are discussed below.

### **Economic Reform Agenda**

The economic reform strategy is based on a two-pronged approach aimed at developing a competitive functioning of the economy by taking steps toward liberalizing the pricing system, and shifting toward a market-based price determination as a means toward more efficient allocation of resources. Secondly, the strategy involves the undertaking of legal and institutional reforms to enable the development of private sector participation concomitant with public enterprise sector reform and privatization, as well as reform of the financial sector.

The reform of the pricing system includes:

- ) The unification of the multiple exchange rate system and movement toward market determination of the exchange rate;
- ) Trade liberalization, consisting of the narrowing of the large non-tariff barriers, and the streamlining of tariffs;
- ) Moving away from the system of administratively determined credit allocation and real negative interest rates, toward competitive allocation of credit, and positive interest rates; and

- ) Addressing the issue of the large energy subsidies.

The other set of structural reforms in support of the development of a private sector-based development includes: (i) strengthening the legal and institutional framework, in particular the reform of the previously constraining legal framework of foreign direct investment, and the enactment of laws, regulations and institutional arrangements to limit monopolistic and unfair trade practices, and the opening of all economic activities to the private sector; (ii) reducing the size of the public enterprise sector through privatization and public enterprise reform; (iii) starting the reform of the state-dominated financial sector, strengthening banking regulation and supervision, and opening the way to the emergence of private banking; and (iv) strengthening of mechanisms of social protection to limit the negative transitory effects of the reforms.

of the reform process and the need to avoid undue social disruption. The magnitude and inter- locking nature of the various distortions require a careful sequencing of the reform measures. Nevertheless, the Government is committed to the full reform agenda of the Third FYDP and has already made good progress in the first year (which began in March 2000).

### **The Social Agenda**

but these achievements also present weaknesses that challenge their sustainability. Progress in social welfare and human capital development has yet to be supported by growth and matched by productive opportunities, and the system of social support remains based more on handouts and charitable transfers than on empowerment and employment. The Third FYDP correctly recognizes these weaknesses and presents a two-pronged strategy to fight poverty based on employment creation for those who are able to work, and a more efficient and targeted social safety net to support the rest of the poor.

**Empowerment-based poverty reduction:** The Plan targets an ambitious reduction of the poverty headcount from 15% to 7% at the end of the plan period. Because of the established direct link between poverty and employment in Iran, this should be realized through an annual creation of 765,000 jobs, corresponding to a decrease in the rate of unemployment from 16% at its starting year to 12.5% at the end of the Plan. The Plan presents a sectoral approach to promoting employment and reducing poverty. It envisages higher support to the agricultural sector through higher public investment in the water management and other productivity enhancing investment, and support to small development activities such as fisheries, animal raising, and forestry. In mining and industry, the strategy includes support to small and medium enterprises through special incentives to investment in under-served regions. In the housing sector, tax and credit incentives are provided to promote low- income housing construction, which would benefit the poor directly and indirectly (through employment creation).

Improvements in education and health are envisaged in the Plan as direct mechanisms for poverty alleviation through empowerment. In education, the Plan emphasizes education as a means to fight poverty, as indicated by the linkages between educational attainment and literacy, and poverty. It envisages upgrading the quality of the educational system at all levels, and improving its effectiveness in terms of a better alignment with the needs of the economy and the labor market. It also envisages reforming education curricula, and developing appropriate programs of vocational training. In health, while Iran has a well performing basic health system and good health indicators, it still has a high rate of childhood malnutrition. The Plan emphasizes the need to address these deficiencies in health by developing a nation-wide nutritional education program, and improving geographical coverage of basic health services. The Government intends also to give particular importance to improving the efficiency of the health system and the quality of services at all levels, and to undertake the reform of its pension system.

**Improving the efficiency of the Social Safety Net:** The second prong of the Government poverty reduction program concerns those who are disabled and those who can not work. The plan envisages improvements in the efficiency of transfers through

better targeting, improving the poverty map, and enhancing the coordination between the various social safety net institutions, including the Bonyads, by bringing them under the administrative control of Management and Plan Organization. A comprehensive review of the different institutions and the existing targeting mechanisms is underway.

**Addressing the social costs of reforms:** While the Plan provides important elements of the social safety net, it does not address explicitly how these mechanisms can be used to mitigate the adverse effects of economic reforms. Rationalization of subsidies, particularly the extensive energy subsidies, as well as privatization will require commensurate measures such as worker training, cash compensation, short-term employment creation, etc. The absence of a clearly articulated social protection strategy could act as a barrier to implementation of the reforms. The Bank plans to work with the Government in preparing a social assessment of the reform program in terms of its impact on the different income groups, and articulating a social protection strategy which builds on the various Plan initiatives.

## **Part B. Study of labor market**

The following pages will present various characteristics of the labor market in Islamic Republic of Iran. In doing so, our analysis will contribute to a better understanding of the prevailing condition of the national labor market. The section B is divided into five sections:

- 1- Trends of population and demographic transition;
- 2- Education factor;
- 3- Participation rates and the composition of the labor force;
- 4- Employment and unemployment considering age, education and gender factors;
- 5- Projections of future trends.

### ***1. Trends of Population and Demographic Transition***

The last national survey was conducted in 1996, which indicated that from the total population of 60,055,488 persons, 30,515,159 (50.8 percent) were males and 29,540,329 (49.2 percent) were females. In the same period, 61.0 percent of the female population live in urban areas, 38.7 percent in rural areas, and the remaining were unaccounted for. In this respect, the average annual growth rate of female population was 2.03 percent during 1986-1996 and the average annual population rate of male during the same period was 1.9 percent. It should be noted that the average annual growth rate of the total population was 1.96 percent per annum within 1986-1996. The corresponding rate for female was 3.26 and 0.41 percent in urban and rural areas respectively during the same time interval.

Nevertheless, Iran is undergoing a major demographic transition, and therefore the major tasks of the national government appears to be either the concomitant high rates of growth in the labor supply, or better utilization of the prevailing demographic trends, particularly female labor force. During the post-revolution, Iran experienced one of the highest rates of population growth in the world (3.9 annual average growth), particularly during 1976-1986 period (see figure-1).<sup>3</sup> Such rapid expansion of the population means that many of those born at that time will shortly enter the labor force. For instance, female entrance will undoubtedly increase, in addition to female school attendance, and hence female educational attainment. In this respect, the country will have to contend with a rapidly growing supply of female workers seeking employments.

This rapid population growth has followed by the decade (1986-1996) of relative population declines, about 1.96 percent annually. Aside from major international and national economic occurrences, e.g., the 1970s oil shocks and rapid expansion of the national economy (see figure-2), two major non-economic factors have contributed to these discrepancies between the two decades. *First*, soon after the revolution, the government abandoned the family planning schemes based on religious values and

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<sup>3</sup> It should be noted, however, that the enormous population growth in this decade was partly due to the influx of almost 3.5 million refugees from Afghanistan and Iraq. And yet, even after adjusting for the effect of migration, the average annual growth rate of the population is believed to have exceeded 3 percent during this period. For more details see

political grounds. In addition, the pre-revolution family court, and legislation on the legal minimum age for marriage, sterilization and medically authorized abortion clinic were all abandoned. However, the impact of pro-natalist policies on the size and structure of Iranian population was clearly demonstrated by the finding of the first national census of population and housing held after the revolution in 1986.

*Second*

reached the unexpected level of 49.3 million. This result coincided also with the height of the war, the exhausted economy, reduce oil income in addition to the extensive welfare measures and governmental subsidies, which have rapidly worn out economic and financial resources. Under these circumstances the effects of population growth and its long-term economic and social implications were finally realized, and hence the first post-revolution national family planning was formally adopted in 1989. Consequently, n of a national family planning program with rather generous resources and specific health and

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aimed at reducing the total fertility rate of Iranian women from 6.4 in 1986 to 4 by the year 2006 (see figures 3) and the natural rate of increase of the population from 3.9 percent in 1986 to 2.3 percent by 2006.<sup>5</sup>

Moreover, in May 1993, a special Family Planning Bill was passed which intended to curtail all social benefits and privileges including family allowances, social security/health benefits, and maternity leave.<sup>6</sup> Nevertheless, the fact is that while fertility

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<sup>5</sup> The decision was made to use child-women ratios as the main indices of fertility – the ratio of children aged 0-4 to women aged 15-49. See Ibid, pp. 323.

<sup>6</sup> It is also important to mentioned that the dis-incentive created by the family Planning Bill were partly offset by continuing financial incentive – the incentives include family benefits that married government employees and workers covered by the Social Security Organization are automatically entitled to as well as easy credits and loans by the exclusively government owned banking system. In addition, the two major social welfare/assistance organizations affiliated with the government go out of their way to encourage early marriage by arranging collective wedding

declines have now resulted in slower population growth, it will take years for this to translate into slower growth in the workforce. In the meantime, the country will have to contend with a rapidly growing active population seeking employment (figures 4, 5 and 6).

All things considered, the demographic transition still may be viewed as a window of opportunity in which growing numbers of workers fuel higher economic growth. This was the case in East Asia during its period of high growth. In fact, the real GDP growth in East Asia was double that of its labor force growth rate in 1970-1980. However, the linkage between the labor force growth rates and real GDP in IRAN during 1980s was exactly the opposite. In fact, during the period of 1966-76, the real GDP growth in Iran was four times higher than its labor force growth (see figures 4, 5). During 1976-86, this link has turned to opposite direction that is the annual average rate of real GDP was relatively negative (-1.9), but the average annual growth of labor force was positive (2.73), and during the 1986-96 decade, this trend becomes almost parallel with East Asia during 1970-80, that is the annual average rate of real GDP growth was almost twice as the annual average rate labor force growth. These inconsistencies only convey the fact that the economic programs and national development plans were unable to utilize the demographic window of opportunity and failed to explore the demographic prospect and use the growing numbers of workers to fuel higher economic growth.

### **1a. Gender composition**

Gender composition in IRAN is similar to that of other developing countries. Nearly 50% of the total population is men/women (Figure-6). Gender Ratio (number of men over number of women multiplied by 100) in 1996 is about 103. This ratio has not changed considerably during last decades and observed smooth changes are due to statistical errors.

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ceremonies and providing the brides with free dowries (for more details see Amir H. Mehryard, *Repression and Revival of Family Planning in Post-Revolution Iran, 1979-1994*, pp. 21).

### ***1b. Urban-Rural analysis of Demographic Transition***

During 1966-1996, the average annual growth rate of urban population has been about 4.92% while the annual average growth rate of rural population has been only 1.96%. Thus the share of urban population has increased from 39% to 61% (Figure-7). Most of this increase is due to migration from rural areas to urban centers, however, it should be noted that another reason (but less significant) is the change in definitions of urban and rural areas during last decades.

### ***3. Participation rates and the composition of the labor force***

The overall participation rate in IRAN reflects a descending trend it fell from 42.52 percent in 1976 to 35.3 in 1996. Nevertheless, there were significant changes in the participation rates of women and men. For instance, from 1986 to 1996, rate of women participation increased particularly for those between 15-54 and 55-64 years of age, from 9.81 percent to 11.73 percent and 4.5 percent to 5.0 percent respectively.<sup>7</sup> On the other hand, the rates of men participation fell for all cohort groups except for those over 65 years old during the same period (see figures 8, 9 and 10).

The decline in participation rates for main male cohort was due partly to the fact that teenagers tend to stay longer at school and that high school graduates who intend to enter into universities perhaps are taken multiple entrance-test over several years. However, the decline in participation rate among male workers is mainly a refle

during 1966-1996 was observed for men with little or no schooling, while participation rates for men with 12 years of education or less has changed little (on average and over time) and participation rate for higher educated male declined significantly, from 87.36 percent in 1966 to 66.69 percent in 1996.

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Figure 12 shows that the decreased in female participation rate has been more pronounced for women with no education (from 13.32 percent to 6.14 percent), while participation rate for women with 12 years of education or less rose from 5.42 to 8.18.

As a result of these development, the profile of the labor force become more female, somewhat younger (despite a graying population), and substantially better educated during the last decade: women were 16.14 percent of labor force in 2001, as opposed to 10.26 percent in 1986; and 31.43 percent of the labor force in 2001 had higher education, as opposed to 22.83 percent in 1986. Nevertheless, the significant share of men in the labor force in Iran (85.5% to 89.8%) indicated that this group has still a dominant role in the nationwide developments of the labor force.

Considering their age groups reflects the fact that the ratio of women entering the labor market has been further subject to fluctuation compared to their male counterparts a fact that complicates anticipation for future. However, for reasons such as family planning, increase in the level of education, high living costs, changes in the public contemplation regarding working women, etc.,

development, therefore, will have affects on the patterns of Iran labor market development, as well as the labor force participation rates.

#### ***4. Employment and unemployment considering age, education and gender factors***

One of the most pressing challenges facing the government of Iran in the new millennium is the creation of enough jobs to absorb the growing number of its work force, particularly women. According to our projection, the labor force in the country will increase by more than 3 percent annually between now and the year 2005. Withholding ceteris-paribus, this means that the national economy will have to provide nearly 4 million new jobs at the end of the 2005. Since the unemployment rate is already double digits, this clearly indicates the formidable task ahead.

#### *4a. Employment by sectors*

Employment rose from 8.8 million in 1976 to 14.6 million in 1996. Behind this significant increase was a modest increase in agriculture employment (13.3 percent) and larger increase in manufacturing employment (50 percent rise), which followed by modest increase in construction (38.8 percent) and rapid expansion of employment in the service sector (137 percent) see figure 13.

It is interesting to note that the increased in manufacturing and agriculture value-added during the same period were relatively larger than job openings in these sectors, while the opposite is true for service and construction sectors (see figures 14 and 15). This suggests that there have been productivity gains in manufacturing and agriculture and losses in service and construction. While there has been a noticeable increase (nearly 100%) in productivity of agriculture during 1976 to 1996, productivity in manufacturing decelerated (45%). The increased productivity in agriculture is due to two factors: first the agriculture sector is mainly in the hands of the private sector. Second, agriculture become more capital intensive (mechanization) rather than labor intensive. The slower growth rate of productivity in manufacturing compared to agriculture is mostly due to lack of flexibility, as well as the policy for keeping ailing manufacturing firms alive with state subsidies.

Furthermore, in 1996, the significant proportion of male workers (74.4 percent) in agriculture was self-employed compared to 29.7 percent of self-employed women in this

access to credits were prevalent among men than women in the agriculture sector, and therefore agriculture market is less competitive in terms of entrepreneurship initiatives. In addition, 54 percent of employed women in agriculture are family workers (non-wage earners), but only 11 percent of male employed fall in this category during the same period of time. This may also suggest that women in the agriculture sector are

economically underprivileged compared to men. This trend, however, is less obvious in the manufacturing sector, which 29.3 of employed men are self-employed relative to 26.8 percent of women and only 2 percent of men are family workers compared to 25.6 percent of women. .

The productivity in services and construction followed the same patterns (see figure 15), but their contributions (value-added) to GDP are diverged during the same period (see figure 16). During 1966-76 the rise in value-added of the service sector and the construction was partly due to injection of the oil revenue from the first oil shock. The situation of these two sectors during the next decade (1976-86) should be seen in light of the political situation and the war with Iraq. Expansion of value added in these two sectors during the later decade (1986-1996) is mostly due to the economic reform programs in particular activity of the private sector.

The size of government in the service sector is considerable, relative to the construction sector (or all other sectors in the economy). Ironically, the indicator for gender economic underprivileged, namely private self-employed, is more accentuated in the service sector relative to the construction sector only 5.4 percent for female workers are self-employed compared to 39.5 percent for male employees. Moreover, taken into account that 99 percent of total employment in construction is male indicates the domination of male in the construction sector. However, the male domination over the service sector is less prevailing (87.3 percent of employment in the service sector is male employees).

Finally, the 1996 comparison between the employment pattern in three major productive sectors, namely ind

employment group in urban and rural areas respectively.<sup>8</sup> More importantly, 74 percent of total employed women nationwide are in only three occupation groups, namely the

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<sup>8</sup> Management and Planning Organization  
Iran: 1986-

#### ***4b- Employment by education***

Data on the composition of employment by education have strongly suggested that the composition of employment has changed rapidly in favor of educated workers, particularly University graduates, to the detriment of relatively uneducated workers. This trend can also be observed by the rate of increase in school attendance among the population from 1976 to 1996.

Comparing the 1986 to 1996, data imply that the total higher educated employed population has increased faster relative to other categories by 182 percent. This is also observable both in male and female categories during the same period (see figure 18). Moreover, in addition to educated employed population, the share of more educated workers, both men and women, is also rising faster than other categories (see figure 19). Having said that, the reader should noted that this development is partly due to the fact that during the same period the public sector has raised the level of employment qualification requirements. However, the growth rate of higher educated employed workers in the private sector exceeded the rate of the public sector during the same period.

#### ***4c. Size and composition of unemployment***

The current stock of the unemployed has been estimated at 2.55 million. Unemployment rates steadily have shown ascendant trend from 10.18 percent in 1976 to 14.02 percent in

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<sup>9</sup> Ibid, page 201 -203

2001.<sup>10</sup> However, a more immediate concern is that unemployment has increased annually from 1996 to 2001 (figure-20).

The unemployment problem in the country is compounded by incompatible sectorial productivity of labor. In the period 1986-96, productivity has declined in the construction sector and the mining and oil sector, has relatively remained the same in the service sector, and has increased in the agriculture sector as well as the industry (see figure-15).

Who are the unemployed? Despite the gains in employment made by women, the sizeable increase in the female participation rate during the 1996-2001 meant that, proportionally speaking, the most of the unemployed continued to be women. In fact, the differential between male and female unemployment rates widened during this period, with the rate for unemployed women reaching almost 19.45 percent in 2001, an increase by 6 per cent (see figure-20). Furthermore, the female unemployment rates among the economically active population were also higher than the unemployment rate among male during in 1986 and 1996.

In absolute terms, however, there were 436 unemployed male for every 100 females nationwide in 1996. This figure was 446 male for every 100 females in 1986. The male unemployed was four times that of female. While the unemployment rate fluctuated during these periods the age pattern among female unemployed was almost constant. In 1986, the highest female unemployment age groups were in the 15-19 (47 percent), 10-14 (43 percent) and 20-24 (38.2 percent), while the age group of 40-44 has registered the lowest unemployment rate (4.7 percent). In 1996, the same age categories reported 31 percent, 27.1 percent, and 22.8 percent respectively. The lowest unemployment rate (1.7) also belong to the same age group, 40-44.

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<sup>10</sup> It has been argued that the measurement of unemployment data in a developing economy like IRAN is problematic, first because the large number of self-employed people, present of refugees and the strong seasonality of certain type of employment; second there is only one reliable source of data, namely the national survey, which is conducted every ten year; and finally the appropriateness of unemployment as a measure of labor market slack. In addition, sophisticated measures, like number of discouraged workers, or voluntary unemployed, or involuntary part-time workers are not available in IRAN.

What we have learnt so far? Overall, the rapid increase in unemployment in IRAN after 1996 was a reflection of a major shift in the composition, as well as structure of both the demand and supply of labor. On the demand side, despite the modest and the somewhat rapid increase of employment across all productive sectors of the economy, unemployment is still rising. Consequently, one main source of unemployment persistence arises on the absence of the competitive private sector, in addition to the non-competitive nature of the public sector, lack of appropriate incentives for private investments, and the national labor laws (cost of hiring and firing workers), all of which have contributed to the deficiency of the demand side. For instance, private firms are reluctant to employ or re-employ labor under the prevailing uncertain market conditions; firms react sluggishly to changes in conditions when making employment decisions, and hence expected expansionary policies of the government will have minimum effects, at best, to reduce unemployment.

By the same token, on the supply side, the increase in the female participation rate and the rapid improvement of the educational profile of the labor force brought into the labor market a large number of mostly young, well-qualified female workers. These developments took place at a time of significant restructuring and slowdown in the pace of economic growth in IRAN and, as a result, the unemployment rate will likely continue to increase.