

Microeconomics of growth in MENA—the role of households

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Table of content

I. Introduction

Choosing the actors

II. Economic and social environment

1. The external environment

Natural endowments and climate

Trade shocks

2. Institutional context

Role of the state

Social norms

III. Static allocation: how the economic and social conditions household behavior

Role of the state

Social norms

-Fertility

-Women and work in MENA

IV. Dynamic allocation: how urban households contribute to growth

1. Savings

2. Human capital

Health and educational attainment

Gender differences

Educational system

Labor market

V. Conclusions

VI. Sources of micro data for MENA

List of tables:

Table 1. The importance of urban households

Table 2. Size of government

Table 3. Savings and real interest rates

Table 4. Population and fertility

Table 5. Labor force participation

Table 6. Health indicators

Table 7. Education

Table 8. Gender and education

I. Introduction

As the longest lasting unit of social organization, the family is an important agent of economic growth. Households make decisions that affect production and accumulation of physical and human capital. However, research on economic growth in the MENA region has largely ignored the role of households and attributed growth outcomes mainly to actions taken by governments. Strong and dominant central governments have ruled the region for centuries. In the 20th century, socialist ideology and availability of oil revenues have helped maintain the image, if not the reality, of the all-powerful state. Keeping in mind the omnipresent role of the state in the economies of the region, while at the same time focusing on the role of micro agents—households and firms—yields a deeper understanding of the aggregate outcomes, including the consequences of state actions.

In this thematic paper I examine the incentives and the constraints faced by households in MENA which may have helped or hindered their role in fostering growth. The rules set by institutions specific to the region influence household behavior. I pay particular attention to two institutions specific to this region, the strong presence of central governments and social norms regarding gender, and show how they affect the role of households in growth. Extensive interventions by the state in the markets for education and labor have created an environment which leads households and individuals to invest more in formal education (degrees) than productive human capital. Attitudes toward gender roles have also hampered the ability of MENA household to play a positive role in economic growth of the region. Social norms regarding gender affect growth in two ways. First, they affect the allocation of women's time between home production and market work. Prevailing norms in MENA discourage market work by women. Second, they act as a disincentive for families to invest in girl education. Women's access to education and the labor market influences parental decisions to invest in girls which in turn influences the rate of population growth, the education of the next generation, and economic growth.

Increasing our understanding of household behavior depends critically on our ability to obtain micro data and examine empirically the behavior of households in the countries of the region. Section VI lists the micro data sets that exist for the MENA region. Unfortunately, at this time only a few are available for researchers to work with. Hopefully, with time more countries will decide to make their micro data available to researchers.

Choosing the actors

A natural division exists between rural and urban households in MENA. The arid climate and the historic surplus extracting role of the urban centers have caused the formation of rural and urban communities that even today differ in many respects. In this paper I place greater emphasis on the role of urban households. Rural households are considered

but not in their roles as agricultural producers. In recent decades urban households have occupied a sizable proportion of the population, higher than in East and South Asia (Table 1). The degree of urbanization is higher than would be expected based on incomes per capita. Figure 1 shows that in late 1990s all MENA countries are at or above the (linear) conditional mean rate of urbanization. A more urban environment has been a characteristics of MENA during the period of modern economic growth. The share of urban population in MENA in 1960 was 28%, compared to 16% each for South and East Asia; in 1997 the MENA share had increased to 58%, compared to 27% and 33%, in South and East Asia, respectively. Table 1 shows that, except in Egypt and Yemen, in all MENA countries the urban population exceeds rural. Given that rural the average size of the rural households is larger, urban households must outnumber rural households in most MENA countries by a good margin. The small role of the rural households is also reflected in the share of the labor force in agriculture, which is higher in MENA countries than all developing regions except Latin America and the Caribbean (Table 1).

Urban areas in MENA have for centuries been important as locations public administration, trade, and surplus extraction. Until the second half of the 20th century, urban households, though not important as producers, have been most responsible for economic growth because of their role as managers of agricultural production. Their decisions as landlords, tax farmers and government bureaucrats determined how much was collected in taxes from rural areas, how much was traded, and how the proceeds were used.

With land reform the direct links between urban and rural households were broken, but the increasing importance of industrial production and human capital accumulation has once again placed urban households at the center of the growth process. The dramatic increase in the flow of foreign exchange to the region after the oil price revolution of 1973 further weakened the role of the rural producers in growth. Although the inflow was highly uneven, in many countries it reduced the dependence of economic growth on food production by rural households and thereby diminished their role as agents of growth.

II. Economic and social environment

In this section I describe various aspects of the environment in which households operate, I argue that this environment is best defined by the role of the state and by social norms. The state's influence on the markets for education and labor and social norms regarding gender are the key influences on the static allocation decisions of the households. The role of the state in setting the rules that govern the incentives for investing in human capital is perhaps the greatest single influence on household decisions. The state funds and directly provides much of the education, and it acts as the intermediary in the relation between workers and employers. Social gender norms have influenced the allocation of time within the household, according to which preference is given for men to work in the market and for women to work at home. While this division of labor may have been optimal at some point in the distant past, it has inhibited economic growth in the modern period. In sections II and III, where I examine the static and dynamic efficiency of

household decisions, I argue that social norms have resulted in high fertility and low labor force participation of women, even those with high education.

1. The external environment

Natural endowments and climate

The climate in MENA is arid and semi-arid. In most parts of the region, rainfall is too little and too unreliable to depend on for cultivation. As a result, historically agriculture in the region has depended on vast systems of irrigation, from river systems to underground canals known as *qanats*. In 1997, about 31% of MENA cropland was irrigated, compared to 3% in Sub-Saharan Africa, 21% in Latin America, and 38% in South Asia. The low proportion of irrigated land in Africa is one of the reasons why African rural households face high risks (Collier and Gunning 1999). Irrigation is a successful response of MENA farmers to the risky environment. In some MENA countries where rainfed cultivation dominates agricultural production, as in Syria, rural households must cope with a high degree of risk due to variability of rainfall. In the more densely populated parts of the region, such as the banks of the Nile, irrigation is the only method of cultivation, which helps attenuate weather risks to a large extent.

The region's rich hydrocarbons resources have exerted an influence at par with climate in the last half a century. With two-thirds of the world's oil resources and one-third of natural gas resources, the economies of the region have been affected to varying degrees by the rising price of crude oil in the twentieth century.

Historically, the arid climate has been considered as a reason for the large role of the state in the economy (Wittfogel 1954) linked to the and rich hydrocarbon resources have both been forces in the direction of greater influence of the state in the economy. A literature that began with Ibn Khaldun, attributes the preeminence of the state in arid climates to the need for central organization of water resources (). In modern times the rising value of oil resources has given the state a new reason to maintain its strong role as the role of water in the economy has declined.

Trade shocks

The largest trade shocks to the region result from fluctuations in the price of oil. A group of nine countries, labeled oil exporters, are highly vulnerable to the oil price shock, but oil price fluctuations affect the rest through worker remittances and direct aid (El-Erian et al 1996). Oil prices quadrupled in 1973 and jumped again by a factor of three in 1979-80, after which they started a gradual decline until 1986 when they collapsed wiping out all but 10 percent of the gains made during the two previous price hikes. Since 1986 their fluctuations have been less abrupt, resembling other primary commodities, except that political factors, concerning the relations among OPEC nations, seem to play a greater role in the case of oil than other commodities. There is no evidence yet regarding how the variability in oil incomes enters household decision making. Governments, who are presumably better informed about oil price shocks than households, and are therefore in a better position to smooth their consumption, have so far failed to do so. Kuwait is the

only country that systematically excludes a part of its oil revenues from current use in a fund. However, the purpose of this fund is not to smooth consumption over temporary price fluctuations, but rather for smoothing over generations.

2. Institutional context

Role of the state

Central authorities have historically played a significant role in the economic life of MENA societies. The reasons for the strong role of the state have changed over time and differ from country to country. In the past the state dominated economic life because of its role as the manager of water resources, extractor of surplus and protector of agricultural communities.¹ The role of Islam in the promotion of a patrimonial system may also have contributed to the rise of the state (Bill and Leiden 1974). In recent past, socialist ideology following independence (Iraq, Syria, and Tunisia), rise of nationalism (Egypt and Iran), and oil revenues that accrue to the state (Saudi Arabia, Iran, Kuwait and other Gulf states), have helped the state continue its dominant role to date (Richards and Waterbury, 1990).

The state has obviously contributed to economic growth by the provision of infrastructure and other public goods, but it has also inhibited micro agents, firms and households, from playing a more positive role in economic growth. For households, state intervention in the markets for capital and labor has been the main problem. Specifically, as we see below, the rise of public sector employment and interventions that reduced the flexibility of the labor market have distorted their incentive for lending to firms and investments in human capital.

Figure 2 presents the share of public expenditures in GDP. All MENA countries with the exception of Iran, Syria, Turkey, and Yemen are below the regression line for low and middle income countries. In relative terms Iran's public sector is perhaps one of the largest in MENA, but the particular way in which public expenditures are calculated (for example, foreign exchange is undervalued and energy subsidies are not included) is responsible for the relatively small share reported in the table (Esfahani 1999). State expenditures as percentage of GDP range from a low of around 25% in Iran and Turkey to 35% for the North African countries, to 50% in Kuwait, which are higher than in East Asia (12%) and Latin America (25%).

Not only are public expenditures high in relation to GDP, the share of wages and salaries of public employees in GDP is also high relative to the comparison groups. Wages and salaries comprise about one-third of public expenditures in MENA compared to one fourth in East Asia and Latin America (Table 2). A more telling ratio is the share of wages and salaries in GDP, which ranges from 6.0 percent in Turkey to 15.4 percent in Jordan, compared to 2.6 percent for East Asia. Except for Turkey, MENA countries' share lies above the regression line for government wage and salaries (Figure 3).

¹ The terms Oriental Despotism and the Asiatic Mode of Production have been used to describe the economic systems at the helm of which stood the state.

The heavy burden of public employment on the public budget in MENA countries is an indication of a stronger role that the public sector plays in defining the environment in which micro agents make their decisions, that is, the role of the state in MENA labor markets. Mirroring the large share of expenditures on compensation of public employees is the large size of the civil service. If we consider public employment (civil service and state enterprises), the extent of the impact of public employment on the labor markets becomes evident. In 1990, public employment as percentage of total employment ranged from 21% in Morocco to 34% in Egypt and 44% in Jordan, 57% in Algeria, to 85% among nationals in Kuwait (Shaban et al 1996, Said 1996). Nearly one of every three Arabs working outside agriculture is a public employee, compared to one of five for the OECD countries (Said 1996). Growth in public employment has come from access to oil revenues, job guarantees (Egypt and Morocco), and a policy of employer of last resort during recessions (Algeria, Jordan, and Tunisia).

Coupled with its large share in formal sector employment, the state's employment policies have made an imprint on labor market and the economic environment. Public sector employment is characterized by low turnover and emphasis on formal education, especially high school and university degrees (Said 1996).

In addition to their role as the largest employer, most MENA states have further reduced the flexibility of the labor market through regulation of pay and rules for job termination. For example, in Iran the government sets the pay scales for private sector jobs based on formal schooling, and the 1993 Labor Law places the onus of proof on the employers who wish to layoff low productivity workers (Salehi-Isfahani 1999). Egypt also has pay scales based on education and a system of compulsory arbitration between the employer and employees (Assaad 1997 and Said 1996). Furthermore, the state has successfully used the hierarchical union organization under its control to influence the employment relation in private enterprises (Posusney 1997). In most other MENA countries the government places restrictions on firing of employees (Said 1996). Egypt and Morocco adopted policies of job guarantees for educated workers in an effort to increase incentives for education (Assaad 1997, Shaban, et al 1996). Recognizing the perverse nature of such incentives, both Egypt and Morocco have in the 1990s backed away from their employment guarantee obligations. In 1990 Morocco provided exemptions from the stringent employment regulations that allowed businesses to hire, up to 18 months, skilled workers without restrictions on wages and benefits or any obligation to retain them (Said 1996).

Another feature of state intervention is in the production of education. The educational system in MENA is under heavy influence from the state, both in the setting of the curriculum and in financing. Except in Lebanon, where private schooling at all levels predominates, in all MENA countries the state is the main provider of education. In 1992 in Arab countries 7.2% of primary enrollments and 6.2% of secondary enrollments were in private schools, compared to 11.7% and 41% for upper middle income economies (Barnett, Eken, Lockheed, and van Eegen 1998). In Iran the same figures were 1 and 2 percents only (World Bank 1997). Psachropoulos and Nguyen (1997) show that private

spending was only 10% of the total for Arab countries compared to 50% for East Asia and the Pacific.

The trend is for more privatization of education in MENA, but the environment for human capital accumulation may not be significantly affected by private provision of education as long as the labor markets remain inflexible. To the extent that educational institutions take their cues from the labor market, private institutions may not behave very differently from those publicly supported. In Iran, where private enrollments have increased in the last few years, private schools outperform public schools in processing students through the same curriculum to prepare them for entry into the universities. They do not provide students with a better mix of productive skills, for success is still defined by entry into public universities and jobs in a labor market that rewards diplomas more than productive skills.

Social norms

It is commonplace to speak of the Middle East as a patriarchal society. Gender relations in MENA are usually seen as less equal than in other developing regions. More than anything else the veil has come to symbolize the subordination of women in social and economic life of MENA societies.

Social norms regarding gender exist in personal attitudes toward female education and work that define the household environment, but are also exist at times as official policy. In many MENA countries patriarchal gender relations have been “codified in law, especially in the region’s personal status or family laws, such as those requiring women to obtain the permission of fathers or husbands to gain employment, to seek a loan, to start up a business, or to undertake any form of travel” (Moghadam 1998). The ban against women driving in Saudi Arabia, lack of women’s suffrage in Kuwait, and the sexual segregation of men and women in buses, classrooms and the workplace in Iran, are only the legal means by which social norms are enforced. In Iran, where women have made strong gains in education, even outnumbering men in entry into the university in the last two years, former president Rafsanjani has complained of political pressures on him (while president in the 1990s) to limit women’s access to the university.²

The gap in gender relations between MENA and other regions of the world identifies social norms as an important feature of the social environment in which micro units operate. The Gender Empowerment Measure calculated by the United Nations, which measures the economic and social opportunities open to women relative men, allows a comparison of gender relations across countries. Figure 4 shows that all MENA

² “They asked why should women study if they are not going to work. And even some radical representatives spoke from the tribune of the Majlis that why should we give the seats in universities to a woman who when she finishes her education must go home and take care of children. I said that an educated mother without a job would be effective in the society because of the children that she will educate.” (Interview with M. H. Rafsanjani *Hamshahri* 1/10/00, p.15)

countries lie below the regression line which measures mean GEM by income. GEM in MENA is even below that of much poorer Sub-Saharan African countries (ERF 2000).

Changes in gender norms have been occurring very slowly, despite modernization in other respects, such as in reproduction and education. Ironically, Moghadam (1998) argues, the oil boom that increased incomes in the region may have strengthened the traditional gender contract in MENA because the inflow of oil revenues removed the need for women to work outside the home. This argument fits the changing pattern of gender norms, which have proved resilient to change in Saudi Arabia and Kuwait despite high female education, but appear much less rigid in Tunisia and Morocco where women have the highest activity rates in market work among MENA countries.

III. Static decisions: Household time allocation

The key static decision of urban households which results from the external environment just described and which influences economic growth is the allocation of women's time between market and non-market work. The effect of the gender norms in MENA on the allocation of time within the household is seen in the high fertility and low labor force participation of women (El-Sanabary 1993). MENA households conform to a specific "gender contract" according to which men act as breadwinners and women as homemakers (Moghadam 1998). The gender contract has two major implications for household behavior,

Reliable data on labor force participation of women in the region is lacking. Studies based on household surveys have been conducted only in a few countries (Egypt, Kuwait, Iran, and Turkey). Accounting for women's work, especially in agriculture, is notoriously difficult. Therefore, even estimates from micro studies may suffer from lack of comparability in definition of work. Definitional problems are less severe for urban workers, however. Participation rates among urban Turkish women is only 15% in the 1990s (Tunali, I., and C. Baslevant 2000), in Jordan 12.1% (reference), in Egypt about 16%, and in Iran 8.6% in 1997 (Statistical Center of Iran 1998). These rates are all less than half the rates reported for East Asia. Even in the predominantly Muslim Malaysia female labor force participation has reached 40%. A fuller comparison of MENA women participation rates is obtained from the share of women in the labor force reported in World Bank (1999) and shown in Table 4. The participation rate for MENA women is the lowest of any region and not changing as fast as one would expect in light of rising education and falling fertility. The sharpest contrast is with Africa, where, despite higher fertility and lower education, women comprise 42% of the workforce in 1997, compared to 26.5% for MENA women. Of course, some of the difference is accounted for by higher urbanization in MENA. During 1977-1997, a period when fertility dropped by nearly forty percent (Table 4), the share of women increased by three percentage points, from 23.4 to 26.5%.

Beyond showing that market work among MENA women is unusually rare, it is difficult to link low participation to social norms. One indication of the impact of gender norms on low labor force participation of women is the drop in participation that occurs with marriage. In Egypt, Assaad and El-Hamidi (1998) show that women's market work drops sharply with marriage rather than with childbearing. In Iran married women have the lowest participation rates, followed by single and widowed women. Divorced women participate at a rate three times that of married women with similar characteristics (Salehi-Isfahani and Sourì 2000). In Kuwait, Shah and Al-Qudsi (1990) find that the labor force participation of single women aged 25-39 is more than twice that of married women (60 percent compared to 30).

Where the rise in education has increased labor force participation rates, social norms have forced occupational segregation. Educated women predominate in teaching, nursing and clerical work. For example, in MENA countries with relatively high female education but with strong traditional gender contracts, the ratio of female teachers is also the highest. In the Gulf countries of Saudi Arabia, UAE and Kuwait the proportion is between 50-70%, whereas in North Africa it is less than 50%.

Gender norms have proved resilient to economic change and costly for growth. Unwillingness on the part of MENA households to come to terms with the need for women to work outside the home has been blamed for lack of success with structural adjustment and poor competitive prospects in the global economy (Karshenas 1996). Coping with hard times, "reluctantly, men allow their daughters to work until marriage or allow their wives to go on working until the mythical day when they can afford to forgo a second salary," (Afaf al-Sayyid-Marsot 1989, p. 121). An interesting finding from micro data from Egypt indicates the opposite, however, that female wage workers are more likely to be found in households with a male wage worker and one with higher earnings (Assaad and El-Hamidi 1998). According to this finding, economic growth favors increased female participation not less.

Given the declining trend in fertility and rising female education, female labor participation has the potential to contribute to growth. If the proportion of women who work outside home were to gradually increase to the level in East Asia, three times as many women would be participating in the labor market. This increase in the rate of growth of the labor force has the potential to generate economic growth.

IV. Dynamic decisions: how urban households contribute to growth

Economic theory identifies the three main decisions of the households with implications for economic growth as the decision to save, accumulate human capital, and procreate. These decisions are interdependent. Children can be a substitute for other assets as means for old age support, and scarce household resources, mainly time, imply a tradeoff between the quantity and quality of children. The average urban households in MENA invests little in physical capital, a lot in human capital and has a high fertility. The key dynamic decisions influenced by the MENA external environment are those that relate to

fertility and the accumulation of human capital. I will first briefly consider the role of savings and then turn to the the decision to accumulate human capital.

1. Savings

Like households elsewhere, MENA households save for a variety of reasons, to improve a business, for old age or a dowry, or just as insurance against loss of income. A minority of urban households that operate small enterprises, and therefore engage in both saving and investing, will be considered as part of the paper on firms. The majority of urban households that do not own a business resort to financial or other assets as a means to save.

Existing data do not permit disaggregation of national savings by origin (households, firms, and the government). Income and expenditure data reported in household expenditure surveys are not reliable for estimating personal savings.³ The high-savers in MENA are exclusively large oil exporters (Table 3). Non-oil exporters' propensity to save is less than half of East Asian countries. Private sector investment in MENA is below other countries, about 10 percent in the 1990s compared to 18 percent for developing countries and 22 percent for Asian countries (IMF 1996). No data is available on the part of this investment that is financed by household savings as opposed to retained earnings of firms.

In developed countries household savings are an important source of finance for firms, but not so in developing countries (*reference?*). Policies to liberalize the financial markets and deepen financial intermediation intend to raise the ability of small savers, such as households, to contribute to growth. Several MENA countries, mainly in North Africa, have attempted financial reform as part of their structural adjustment, but no studies exist that can show if household savings have increased as a result. The chief indicator of financial openness is the real rate of interest. Table 3 shows that for those countries that report real interest rates in World Bank (1999), the real rate of interest has increased over time and is positive. In Iran, real interest rates have averaged negative for the last three decades, and are still about five percent points below zero (Jalali-Naini 1997). Easterly (1999) reports a similar rise in the rate of interest for developing countries as a whole showing that real rates, which were negative before 1980, were on average positive afterwards.

Economic theory does not give us a clear direction for the impact of interest rates on personal savings (Deaton 1997). Neither of the main theories of why households save—life cycle, permanent income, or consumption smoothing—predict unambiguously that savings should increase with interest rates. What we do know is that a well developed system of financial intermediation is associated with a more effective use of household savings. The financial environments in which MENA households generally operate not only suffer from lack of depth, they are also insecure. As a result, households may prefer to place their savings in unproductive assets such as gold and land than in the financial system. The risks of nationalization and loss of value due to inflation, even in the

³ Expenditure and integrated household surveys in Iran typically report expenditures in excess of income, sometimes by 30 percent. The blame usually goes to the unreliability of the income data.

countries undergoing reform, deter savers from depending on the financial system for long term savings.

2. Human capital

Historically, human capital has played a significant role in the economic growth of the MENA region. Harnessing water resources for agriculture and developing the calendar to assist cultivation presupposed the development of a scientific community in urban centers. When the environment has been conducive to human capital accumulation, the region has prospered. Although institutions of formal education existed for periods of time in the major cities of the region, the urban nuclear family seems to have played a significant role in the intergenerational transfer of human capital. To this day, education in the MENA region enjoys a high social status, which is reflected in a high level of public commitment. Public expenditures on education are higher than in most developing countries (World Bank 1997b).

In this section I focus on the key dynamic decisions of MENA households that affect growth through the accumulation of human capital. These decisions determine the level of fertility, and health and education of the children. My emphasis is on how the external environment, as defined by the state and social norms, have influenced these decisions. I will argue that, aided by lower fertility, the level of investments in education in MENA is generally high, but because of the importance attached to diplomas as distinct from learning productive skills the returns to those investments are low.

Fertility

The MENA region has been slow in its demographic transition. Many demographers have blamed the high fertility of the region on its gender norms. The term 'Islamic fertility' has been coined to refer to the region's high fertility which seems at odds with its relatively high position in the developing world in terms of income and education. In 1977, births averaged 6.3 per woman in MENA (Table 5), nearly as high as in Sub-Saharan Africa (6.6) with much lower per capita income, and twice that of East Asia and the Pacific (3.3). Figure 5 shows that TFR in 1977 in all but two MENA countries (Egypt and Turkey) was higher than indicated by the regression line. These comparisons are at also at odds with the relative educational attainment of women in these regions. Female education in Africa was at the time much lower compared to MENA, whereas in East Asia it was not much higher (Table 6). Recently, fertility has declined in most countries of the region; the TFR has dropped from 6.3 to 3.5 in 20 years. In 1997 at least half of MENA countries were below the regression line (Figure 6).

Two implications of lower fertility for growth are important to note. First, the move from high to low fertility provides the country with a one-time bonus derived from a favorable age structure. Economic historians have labeled the benefits to growth from a more rapid labor force growth and a low dependency ratio (ration of working ot non-working population) that follow fertility transitions as a "demographic gift" (Bloom and

Williamson 1997) and a “window of opportunity” (Barlow 1994). Yousef (1998) and Tunali (1996) show how the changing age structure can play a positive role in MENA countries. Even though fertility has been on the decline in the last twenty years, the rate of growth of the labor force has remained high, averaging 3.2 percent during 1985-95 (Table 5) and will remain in the 2-3% range for the next decade or so. These rates could be even higher if female labor force participation rates increase. As pointed out earlier, the effect of social norms on the static decisions of households has so far precluded an optimal allocation of time within the household. Women’s time freed by lower fertility has so far not been used for effective participation in the economy. Of course, the benefits from increasing numbers of job market entrants are only realized in a dynamic economy that can absorb them.

From the dynamic perspective, the benefit from lower fertility will also accrue in terms of higher quality of children. The resources freed by lower fertility permit the families to invest more in the human capital of each child.

Health and Education

Although the governments share with households the responsibility for provision of health and education of children, they cannot fully substitute for the role of households. Decisions taken by households to provide for the health and education of children during the early years are of critical importance for their human capital as adults (Young 1995, Hoddinott, 1999). Furthermore, while governments can be effective in the provision of health and education services, parents must be willing to take advantage of those services.

Parental investment in children is affected by the incentive structure they face. The most critical signals they receive are those given by the market for labor and the educational system. These signals influence parental decisions by affecting the rate of return to specific types of investments. At one level, the decision to invest in children is driven by considerations for child welfare and old age security for parents. Depending on the level old age security socially provided, parents may depend more or less on their children as means for old age support. Parents may also wish to increase the welfare of their children by investments that are embodied in them—human capital—instead of by bequest. The tradeoff between these two depends on the performance of other asset markets and inheritance laws. Lack of confidence in asset markets will increase the willingness of parents to invest in human capital.

Health outcomes in MENA appear commensurate with the economic standing of the region (Table 6). Infant mortality declined by 50% between 1977-97, in line with fertility. Life expectancy and mortality reflect better health outcomes in MENA than in South Asia and Africa but lower than in East Asia and Latin America.

Educational achievement in MENA is strong but somewhat perplexing. While literacy rates are not high in comparison with other developing countries, enrollments in high school and universities are impressive. In 1997 female and male literacy rates of 46 and 71 percent in Arab countries were marginally better than 49 and 65 percents in Africa,

and much worse than 86 and 88 percents in Latin America and 75 and 91 percents in East Asia (United Nations 1999). In contrast, university enrollment rates are on average twice as high as East Asia and Pacific (Table 7). Emphasis in university education is also evident in the share of public expenditure that goes to higher education, ranging from a low of 50% in Algeria to as high as 99% in Lebanon (United Nations 1999).

As I will argue below, the root of this anomaly lies in the labor market conditions of MENA, which reward diploma holders out of proportionate to their productivity.

The same puzzle appears in the gender gap in education: the gap in literacy is higher than in all other regions except South Asia, but much narrower in secondary and higher education (Table 8). The proportion of women in secondary education in MENA countries is between 45-50 percent, comparable to 48% in South Korea. In higher education the proportion is surprisingly high, exceeding 40% for many countries, surpassed only by Latin American countries. In Kuwait women outnumber men in universities, and they will soon do so in Iran.

In MENA university education is rationed almost exclusively by student aptitude, willingness to work hard and to memorize, and to a lesser extent by parental willingness to pay, compared to Europe where they are “rationed not by price or aptitude, but by achievement in the core subjects studied in secondary schools (Bishop 1996, pp. 120-21). MENA states enforce uniform tests at all levels of education, but their control of the university entrance examinations is probably the most effective in determining incentives. In Iran, private schools work harder than public schools to teach for the ‘big test’, and parents spend large sums on private tutoring (Salehi-Isfahani 1998). In Egypt, parents invest in excess of \$3 billion on private tutoring to help prepare their children for university entrance examinations (World Bank 1999b).

Despite high levels of enrollments in high school and university education, the impact of education on growth in MENA has been very little. Pritchett (1999) argues that MENA that has enjoyed “the fastest expansion of schooling of any region, including East Asia,” has experienced one of the slowest growth rates in the world. Pritchett points to the low quality of education in MENA as a possible explanation for the low impact of education on growth. The problem may not be so much with the quality of education per se in MENA than with lack of a link between what students learn and what they need to be productive. Too much emphasis is placed on repetition and memorization, which may help with entering the university but not with productivity on the job (World Bank 1999b). Entry into universities has a huge premium in MENA because of its impact on getting a job. Highly competitive exams induce parents and students to invest heavily in skills that increase the chance of passing the university entrance examinations, as evidenced by the huge expenditures private tutoring. The test taking approach to education not only short changes students on the skills they need for productive employment, it creates huge losses in efficiency as the bar is continuously raised to admit a limited number of students into the highly desirable but limited places in universities. One outcome of this competitive system is that while students from MENA perform very

well in international competitions, they do poorly in international tests that measure learning by the average student (World Bank 1997).

The Labor market

The returns to investment in human capital are in large part realized in the labor market. As noted earlier in section II, vast state interventions in the labor market have reduced the flexibility of MENA labor markets. Two aspects of this inflexibility have been particularly important from the point of view of human capital accumulation. First, the importance of formal education and diplomas for selection into public and private sector employment, and, second, inability of the employer to reward or layoff workers according to their productivity.

Employers, public or private, place too much emphasis on formal degrees and little on individual characteristics that they deem as productive. Criteria for employment are sometimes in the form of job guarantees for graduates as in Egypt and Morocco. But more often it is the product of a logical response of employers to an inflexible labor market. Individual characteristics that are more readily revealed on the job are not very useful to employers who cannot lay off workers once they have hired them. As a result they are likely to place greater value on the ex ante signals of quality, which are mostly revealed in the ability to enter university in general, or a particular school with a known rank (Salehi-Isfahani 1998). Naturally, in MENA countries workers invest in the type of human capital that can land them a good job rather than those that help them hold on to it once it has been acquired.

Very few studies of returns to education have been carried out for the region. Assaad (1997) studies the returns to public and private jobs in Egypt. He finds that public sector hiring practices have a substantial impact on the labor market because, despite erosion in pay, they still offer an advantage over private sector jobs. The overall premium caused by compensation and job tenure is high enough to cause large unemployment queues for public sector jobs.

V. Conclusions

In this paper I have focused on the role of urban households in the growth process in the MENA region. I identified two aspects of the environment in which MENA households operate as key to conditioning their behavior: the large role played by the state in the education and labor markets and the social norms regarding gender. I argued that this environment has affected an important static decision of the households, namely the division of labor within the household, resulting in high fertility and low labor force participation of women.

I then identified the implications of the same environment for the dynamic aspects of household decisions—savings and human capital accumulation. Although little can be said about the magnitude of household savings in MENA, their effect on growth has been compromised by lack of confidence on the part of the households in the financial markets. This lack of confidence derives directly from past arbitrary actions by governments and a lack of the rule of law. As a result, to save for the long term

households have resorted to unproductive assets such as land and jewelry. I argued that the impact of state interventions and social norms on household actions were much greater in the accumulation of human capital than physical capital. The role of the public sector in MNEA in education and the labor market has created a system of incentives in which households strive hard to accumulate formal education but not enough in productive human capital.

The implications of the analysis of this thematic paper for country studies is as follows. First, the individual country studies should examine the extent to which characteristics of the environment identified here--the state and social norms—apply in their specific cases. Where these are judged as adequate descriptions of the environment in which households operate, they should proceed to describe and quantify them. The role of employment policies and labor market regulations are the most obvious as far as the role of state is concerned. For social norms, indicators of restrictions placed on women in schools, the workplace and public space would be needed to define the environment in which the households make decisions regarding fertility, female education and labor force participation.

Micro studies of household behavior can be very useful in understanding the impact of the environment on the static and dynamic decisions of the households. In particular, they are indispensable in disentangling the effects of individual preferences and social norms as opposed to constraints in shaping behavior. For example, in explaining gender discrimination in education separating the roles parental preferences from household decisions that are a response to the gender discrimination in the labor market would be very useful. Evidence on the static decisions could come from aggregate data on fertility and labor force participation of women, but ideally, one would need micro data to link individual characteristics, such as income and education, to fertility and labor force participation decisions. By controlling for observed individual characteristics, micro studies can provide a closer link between social norms and demographic and labor market outcomes.

For dynamic decisions, the focus should be on the markets for physical and human capital. With respect to physical capital accumulation, the efficiency with which credit institutions can channel household savings toward productive investments is the key. Do banks and other mechanisms of financial intermediation provide households with good alternatives to investments in unproductive assets such as land? Micro studies of consumption smoothing over the life cycle and intergenerational transfers through inheritance and dowries can throw provide valuable information on the household motives to save.

With respect to human capital accumulation, which is produced directly within household as well as in schools, two questions should guide the case studies. First, to what extent is the productivity of the human capital produced affected by state interventions in the labor market? Second, to what extent household investments in the education of boys and girls are driven by the gender inequalities due to social norms? Studies of returns to education which compare returns to formal schooling in private versus public sector, large

establishments regulated by labor laws vs. those unregulated can reveal how state interventions in the labor market have affected household choice in the amount and type of human capital to accumulate.

VI. Sources of micro data for MENA

Algeria

Household Living Standards Survey 1995

Household Consumption Survey 1988

Egypt

Integrated Household Survey 1997

Priority Survey/Community Survey 1997

Household Income and Expenditure Survey 1995-96

Integrated Survey 1995

Priority Survey/Community Survey 1993

Household Income and Expenditure Survey 1990-91

Labor Force Sample Surveys, 1988 and 1998

Iran

Socio-Economic Characteristics of Households

1987-89 and 1992-95 (panel data)

Household budget surveys, 1985-1998

Jordan

Household Income and Expenditure Survey 1997

Survey of Living Conditions 1995-96

Household Income and Expenditure Survey 1992

Kuwait

Household Income and Expenditure Survey 1999

Family Budget Survey 1986-87

Lebanon

Household Living Conditions 1997

Household Living Conditions 1996

Lebanese Population and Housing Survey 1996

Morocco

Living Standards Measurement Survey 1998-99

Living Standards Measurement Survey 1990-91

Household Income and Expenditure Survey 1984-85

Tunisia

Household Consumption Survey 1995

Living Standards Survey 1995-96

West Bank & Gaza

The Palestinian Expenditure and Consumption Survey 1997

Labor Force Survey 1996
The Palestinian Expenditure and Consumption Survey 1995-96
Palestinian Society in Gaza, West Bank and Arab Jerusalem 1992

Yemen
Household Budget Survey 1998
Household Budget Survey 1991-92

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Table 1. The importance of urban households in MENA

Country	Urban population as % of total		Labor force in agriculture (%)	
	1970	1997	1970	1990
Algeria	39.5	57.1	47.4	26.1
Egypt	42.2	45.1	51.8	40.3
Iran	41.9	60.1	43.8	38.8
Iraq	56.2	75.4	47.1	16.1
Jordan	50.5	72.5	27.8	15.3
Kuwait	77.8	97.2	1.8	1.2
Lebanon	59.4	88.4	19.8	7.3
Libya	45.3	86.2	28.9	10.9
Morocco	34.5	53.2	57.6	44.7
Oman	11.4	79.0	56.9	44.5
Saudi Arabia	48.7	84.0	64.2	19.2
Syria	43.3	53.1	50.2	33.2
Tunisia	44.5	63.3	41.9	28.1
Turkey	38.4	71.6	70.7	53.1
United Arab Emirates	57.2	84.6	8.8	7.8
Yemen	13.3	35.3	70.4	61.0
MENA	41.5	58.4	49.8	34.8
East Asia & Pacific	18.5	33.0	76.4	68.9
South Asia	18.7	27.0	71.1	63.4
Sub-Saharan Africa	18.7	32.3	78.5	67.5
Latin America & Caribbean	57.4	74.2	41.0	25.5
Middle income countries	33.2	48.7	61.1	52.8

Table 2. Size of government

Country	Government wages & salaries as % of GDP		Public expenditures as % of GDP	
	1977	1997	1977	1997
Algeria	..	8.30	..	31.8
Egypt	9.52	6.3	46.9	34.2
Iran	11.27	9.16	45.8	23.2
Iraq	..	..	..	..
Jordan	..	15.43	44.8	35.0
Kuwait	6.53	13.07	31.4	41.5
Lebanon	..	8.68	..	37.9
Libya	..	..	..	..
Morocco	10.44	11.34	..	..
Oman	4.95	10.23	40.2	..
Saudi Arabia	..	..	52.6	..
Syria	7.30	..	49.4	23.8
Tunisia	9.52	10.33	33.3	32.6
Turkey	5.98	6.08	20.9	26.9
United Arab Emirates	..	4.15	8.0	11.8
Yemen	..	11.41	..	39.2
MENA	9.11	7.96	38.09	27.89
East Asia & Pacific	..	2.62	..	11.6
South Asia	2.11	..	12.7	17.7
Sub-Saharan Africa	7.08	..	23.0	..
Latin America & Caribbean	6.09	..	19.1	..
Middle income	..	..	..	..

Table 3. Savings and interest rates

Country	Average real interest rates (%)			Gross saving/GDP (%)	
	1968-1977	1978-1987	1988-1997	1977	1997
Algeria	35.7	34.5
Egypt	4.6	4.5	5.9	18.5	13.0
Iran	37.0	34.1
Jordan	2.9	-9.7	5.5
Kuwait	..	1.3	1.6	51.9	25.2
Lebanon	..	6.3	15.9	..	-16.7
Libya	3.1	1.8	1.5	50.0	..
Morocco	..	1.0	0.5	11.6	15.2
Oman	..	1.4	2.6	44.9	26.7
Saudi Arabia	54.9	34.6
Syria	13.0	19.0
Tunisia	..	4.1	2.5	22.1	24.2
Turkey	..	2.4	..	13.3	19.3
United Arab Emirates	69.9	27.4
Yemen	12.8
MENA	36.6	25.5
East Asia & Pacific	28.0	37.7
South Asia	18.1	18.2
Sub-Saharan Africa	23.4	16.7
Middle income	25.7	25.7

Table 4. Women in MENA labor force

Country	Female labor force as % of total	
	1977	1997
Algeria	21.1	25.7
Egypt	26.3	29.4
Iran	20.0	25.4
Iraq	17.0	18.7
Jordan	14.3	22.6
Kuwait	11.6	31.2
Lebanon	21.4	28.8
Libya	17.9	21.7
Morocco	32.9	34.6
Oman	6.2	15.1
Saudi Arabia	6.8	14.2
Syria	23.3	26.2
Tunisia	27.3	30.9
Turkey	36.2	36.7
United Arab Emirates	4.8	13.8
Yemen	30.9	27.9
MENA	23.4	26.5
East Asia & Pacific	42.2	44.5
South Asia	33.9	33.0
Sub-Saharan Africa	42.3	42.2
Latin America & Caribbean	26.5	34.2
Middle income	39.9	42.0

Table 5. Population and labor force

Country	Population growth (average annual %)		Growth of labor force (15-64 age population) (average annual %)		Total fertility rate	
	1977-1986	1987-1996	1975-1985	1985-1995	1977	1997
Algeria	2.82	2.16	4.0	3.5	7.2	3.6
Egypt	2.31	1.94	2.7	2.5	5.3	3.2
Iran	3.26	1.74	3.6	2.8	6.5	2.8
Iraq	3	2.66	3.6	3.5	6.6	4.7
Jordan	3.49	4.24	3.7	5.9	7.2	4.2
Kuwait	4.58	-.9	6.9	-1.1	5.9	2.9
Lebanon	1.31	1.78	1.7	2.5	4.3	2.5
Libya	3.92	2.29	4.4	3.6	7.4	3.8
Morocco	2.01	1.73	3.3	3.1	5.9	3.1
Oman	4.43	3.86	5.0	4.2	10.1	4.8
Saudi Arabia	5.05	3.52	5.8	4.6	7.3	5.9
Syria	3.01	2.83	3.6	3.8	7.4	4.0
Tunisia	2.43	1.67	3.3	2.8	5.7	2.8
Turkey	2.1	1.77	3.0	2.8	4.5	2.5
United Arab Emirates	7.21	5.03	10.8	5.1	5.7	3.5
Yemen	3.25	3.87	4.1	3.8	8.0	6.4
MENA	2.88	2.34	3.5	3.2	6.3	3.6
East Asia & Pacific	1.4	1.31	2.79	..	3.3	2.1
South Asia	2.07	1.76	2.64	..	5.5	3.5
Sub-Saharan Africa	2.65	2.47	2.91	..	6.6	5.5
Latin America & Caribbean	1.92	1.58	2.79	..	4.5	2.7
Middle income	1.48	1.27	2.43	..	3.6	2.3

Table 6. Health indicators

Country	Female life expectancy		Male life expectancy		Infant mortality rate	
	1977	1997	1977	1997	1977	1997
Algeria	58.5	72.0	56.5	68.8	112.0	32.0
Egypt	55.3	67.9	52.9	64.7	131.0	51.0
Iran	59.0	70.0	58.2	68.5	100.0	32.0
Iraq	62.3	59.0	60.5	57.0	84.0	112.0
Jordan	..	72.6	..	69.2	42.0	28.7
Kuwait	71.7	79.5	67.5	73.6	34.0	12.0
Lebanon	67.0	71.7	63.1	68.1	48.0	28.0
Libya	59.3	72.2	56.0	68.3	107.0	24.0
Morocco	57.5	68.5	54.1	64.8	110.0	51.0
Oman	56.1	74.4	53.8	71.4	51.0	18.0
Saudi Arabia	59.9	71.8	57.6	69.4	75.0	21.0
Syria	61.9	71.2	58.3	66.7	67.0	31.0
Tunisia	60.6	70.7	59.6	68.4	84.0	30.0
Turkey	62.5	71.7	58.0	66.5	120.0	39.9
United Arab Emirates	68.9	76.5	64.7	73.9	70.0	8.0
Yemen	48.5	54.8	45.0	53.8	158.0	95.7
MENA	58.0	68.2	55.9	65.6	107.0	49.1
East Asia & Pacific	..	70.3	..	66.8	58.7	37.2
South Asia	51.9	62.9	52.6	61.5	130.5	76.9
Sub-Saharan Africa	48.5	52.3	45.1	49.4	119.7	91.4
Latin America & Caribbean	66.3	72.9	61.0	66.5	67.5	31.8
Middle income	..	71.4	..	66.5	63.5	34.5

Table 7. School enrollment rates

Country	Primary		Secondary		Tertiary	
	1980	1996	1980	1996	1980	1996
Algeria	80.9	94.1	30.5	56.2	5.9	13.4
Egypt	..	93.0	..	67.8	16.1	22.6
Iran	..	89.8	..	68.8	..	17.1
Iraq	98.6	76	46.8	..	8.7	10.9
Jordan	..	..	..	..	26.6	..
Kuwait	84.5	..	..	..	11.3	26.7
Lebanon	..	76.1	..	..	30.1	27.1
Libya	..	..	62.3	..	7.8	20.0
Morocco	61.6	73.8	20.3	..	5.9	11.3
Oman	42.6	68.7	9.9	..	..	6.4
Saudi Arabia	48.6	61.4	21.3	42.4	7.1	16.3
Syria	89.5	91.2	39.3	38.1	16.9	15.1
Tunisia	82.2	97.6	22.9	..	4.8	13.7
Turkey	..	..	..	..	5.4	18.2
United Arab Emirates	73.6	..	..	..	3.1	11.9
Yemen	..	52.0	..	..	4.1	4.2
MENA	78.2	86.8	..	61.2	10.8	15.9
East Asia & Pacific	93.5	101.3	..	..	3.3	8.1
South Asia	..	..	..	..	4.5	6.3
Sub-Saharan Africa	..	..	..	..	1.4	3.4
Latin America & Caribbean	85.5	91.2	28.7	..	14.1	18.6

Table 8. Gender and education

Country	Female-male	% of female students in	% of female students
	differential in literacy	secondary education	in higher education
	1997	1996	1996
Algeria	25.0	47.9	..
Egypt	24.3	45.3	..
Iran	15.0	46.3	45.0
Jordan	10.4	47.2	46.9
Kuwait	5.6	49.6	61.6
Lebanon	12.9	..	49.2
Libya	25.8	..	..
Morocco	26.6	..	..
Oman	21.9	48.6	46.0
Saudi Arabia	18.6	45.8	46.5
Syria	30.0	46.3	..
Tunisia	22.2	..	44.6
Turkey	18.5	..	..
United Arab Emirates	-2.8	49.9	..
Yemen	43.3	..	12.5
MENA	22.9	41.3	46.3
East Asia & Pacific	13.9	..	33.2
South Asia	26.9	..	36.3
Sub-Saharan Africa	16.1	..	..
Latin America & Caribbean	2.2	..	..