

RESUME

Policy Paper



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

The Unemployment Challenge in Jordan: Between Demand & Supply

January 2022



منتدى الاستراتيجيات الأردني JORDAN STRATEGY FORUM

The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at www.jsf.org or contact us via email at info@jsf.org. Please visit our Facebook page at Facebook.com/JordanStrategyForumJSF or our Twitter account [@JSFJordan](https://twitter.com/JSFJordan) for continuous updates about Jordan Strategy Forum.



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1. Background

The objective of all governments is to achieve economic growth because the production of more goods and services raises people's living standards. Economic growth, however, should not be the only objective. The realization of **"high"** employment levels, or **"low"** rates of unemployment, should be an equally important objective.

Unemployment involves high economic, psychological, and social costs.

1. The economic cost of unemployment is a decline in a nation's output and income. In addition, through the loss of tax revenues, and increases in government spending (unemployment benefits), society at large bears some economic cost as well.
2. The psychological cost of unemployment is felt by the unemployed individuals, and their families. Lengthy periods of unemployment can lead to a loss of self-esteem, depression, and even suicidal behavior.
3. The social costs of unemployment are felt by society at large. The unemployed individuals tend to feel angry, frustrated, and desperate. High unemployment rates tend to be associated with increases in crime, domestic violence, drug abuse, and divorce. High and persistent unemployment rates can even lead to social unrest.

The challenge that has been pressing the Jordanian economy, for so long, is unemployment. This challenge, however, and as a result of COVID-19, has taken an unprecedented turn.

The overall unemployment rate has increased from **19.1%** (3rd Quarter of 2019) to **23.9%** (3rd Quarter of 2020), and to **23.2%** (3rd Quarter of 2021). These increases would only escalate the economic cost, psychological cost, and the social cost of unemployment. Something must be done to stop this rising trend in unemployment.

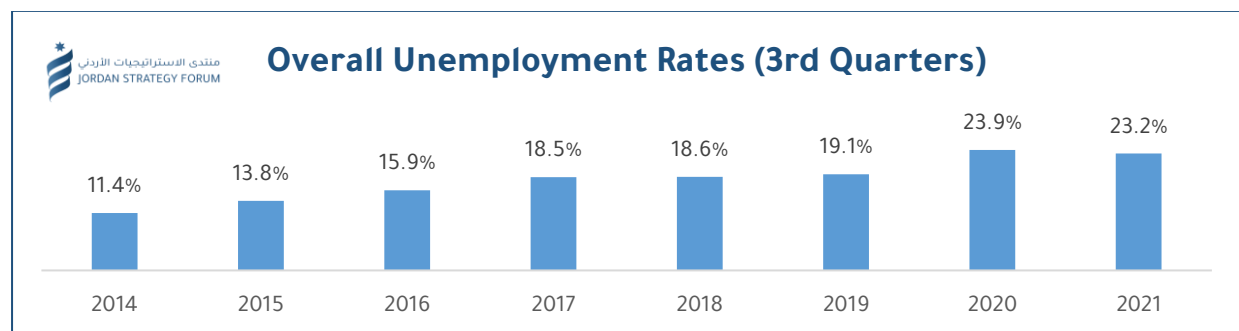
The objectives of this Policy Paper, issued by the Jordan Strategy Forum (JSF), is examine the unemployment challenge in the Jordanian economy. The paper involves four objectives:

1. To outline a number of observations about the unemployment challenge in Jordan. The implicit objective of the part is to put the issue of unemployment in its proper perspective.
2. To determine which side of the labor market is responsible for unemployment. Is unemployment due to human capital being inadequate, and does not respond adequately to the needs of labor market (supply side of the labor market)? Or, is unemployment due to economic growth / sector growth / firm growth being too weak to generate sufficient jobs in the economy (demand side of the labor market)?
3. To look at the distribution (by economic activity) of employed Jordanians, and growth in employment.
4. To recommend some policy measures whose objective is to reduce unemployment among Jordanians.

2. The Unemployment Challenge in Jordan: Some Observations

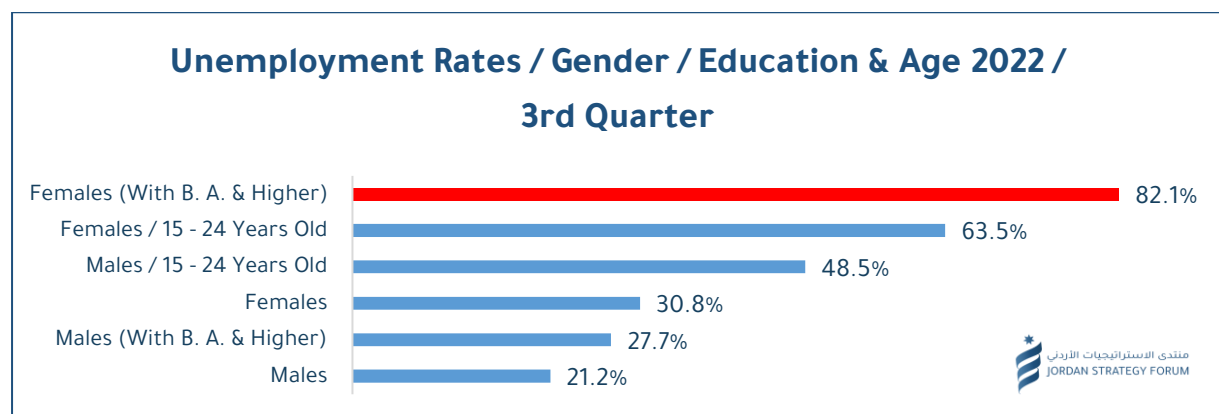
In this section, we outline a number of observations about the unemployment challenge in the Jordanian economy.

1. Long before the onslaught of COVID-19, the overall unemployment rate was high. COVID-19 has only exacerbated and exposed this long-existing challenge (Department of Statistics).



Source: Department of Statistics

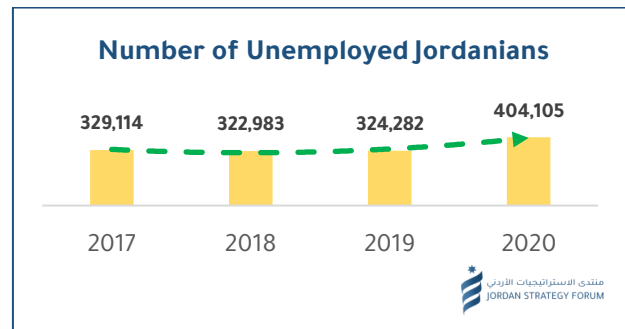
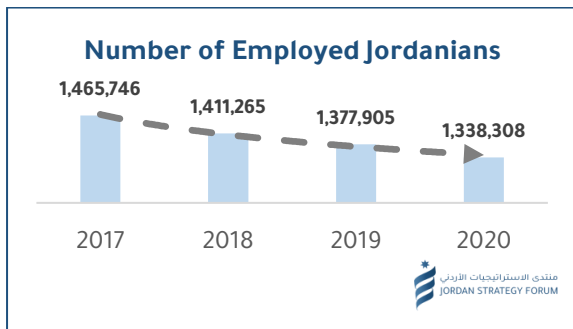
2. The age, gender, and education distribution of unemployment is a more serious challenge. Unemployment rates among 15 to 24 years old males and females are particularly discouraging. While one expects the youth to hold high aspirations, they face high uncertainty and prolonged transition from school / university to work and hence, into adulthood.



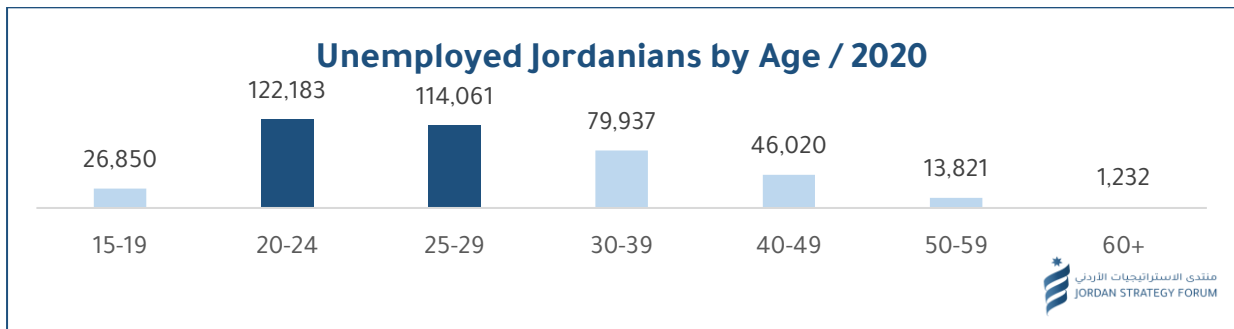
Source: Department of Statistics

3. The total number of employed Jordanians has decreased from 1,465,746 in 2017 to 1,338,308 individuals in 2020. As a result, the number of the unemployed has increased from 329,114 individuals in 2017 to 404,105 individuals in 2020, or by about 23.0%.

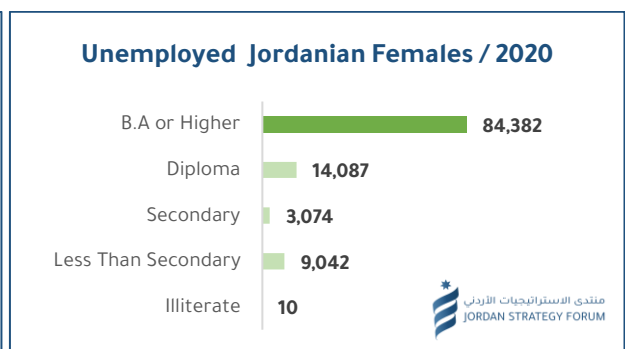
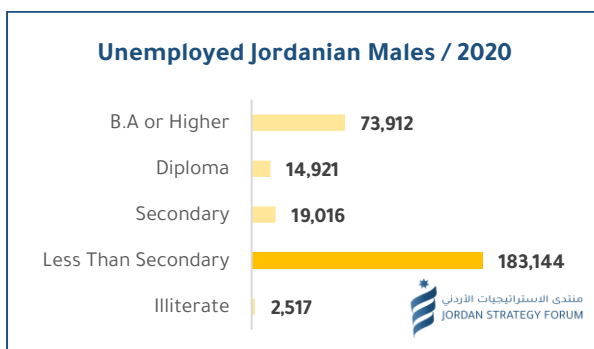
This army of the unemployed (404,105) is composed of 293,510 males and 110,595 females.



4. A large proportion of the unemployed belong to the age group 20-24 and 24-29 years old. These two age groups account for 58.5% of the unemployed.

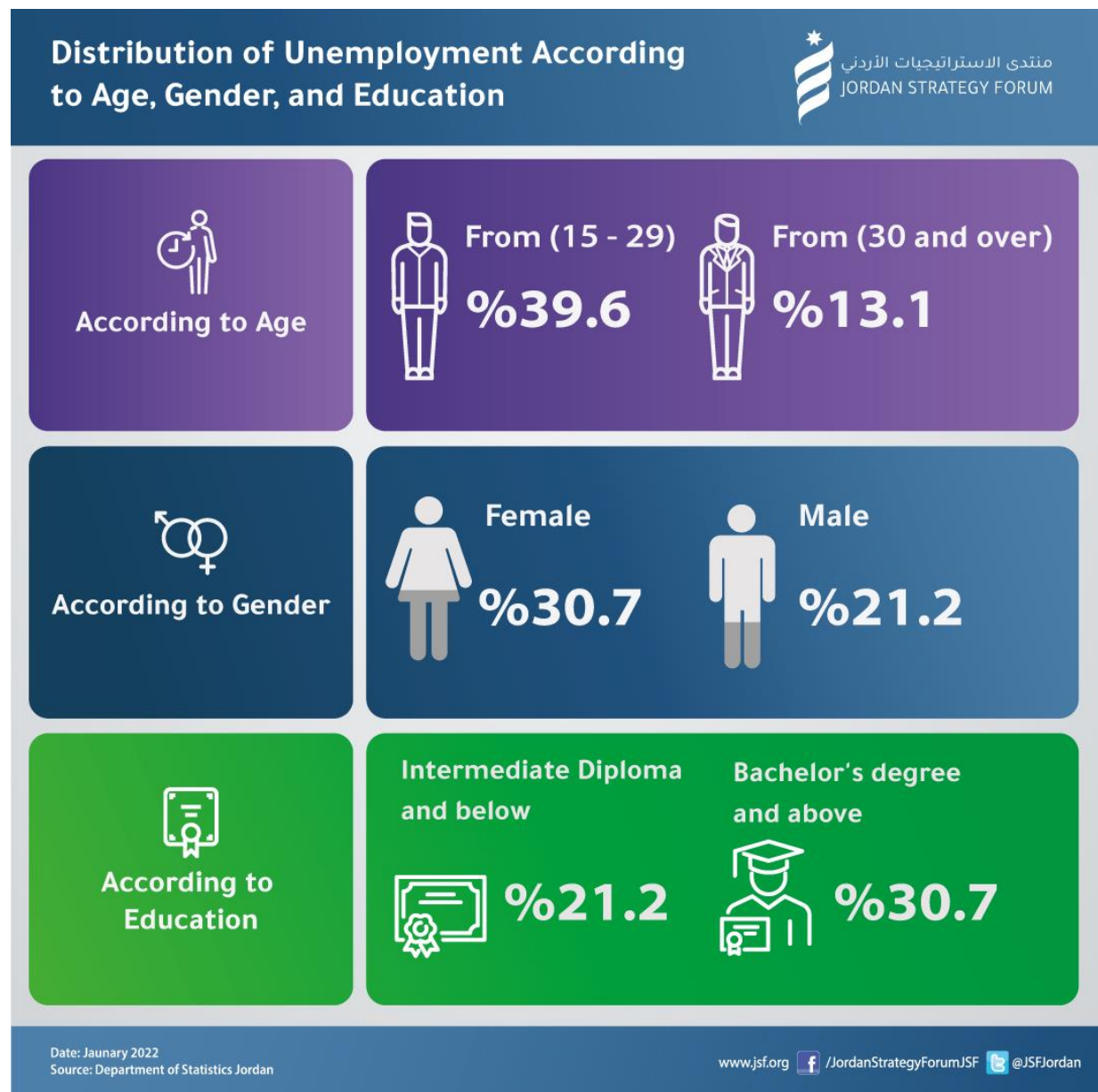


5. Most of the male unemployed Jordanians have less than secondary education (about 62% of the total). Most of the female unemployed Jordanians, on the other hand, have an undergraduate degree or higher (about 76% of the total).

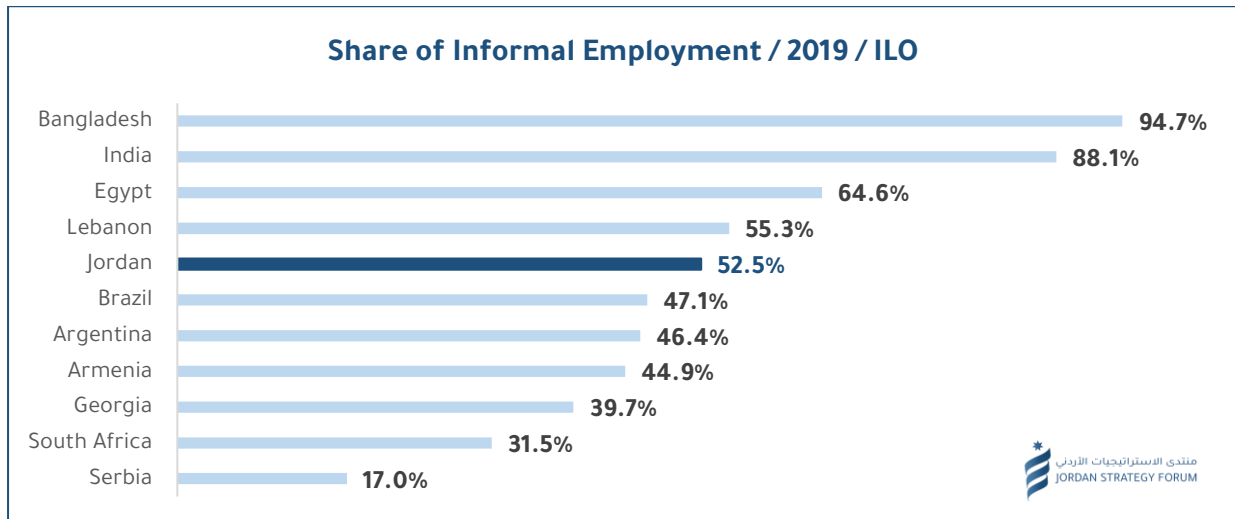


IN A NUTSHELL, with a 23.2% overall unemployment rate, and record high rates among the youth, those with less than secondary education, and those with university education, one can argue that **“UNEMPLOYMENT”** should be the main concern of the government, as well as the private sector.

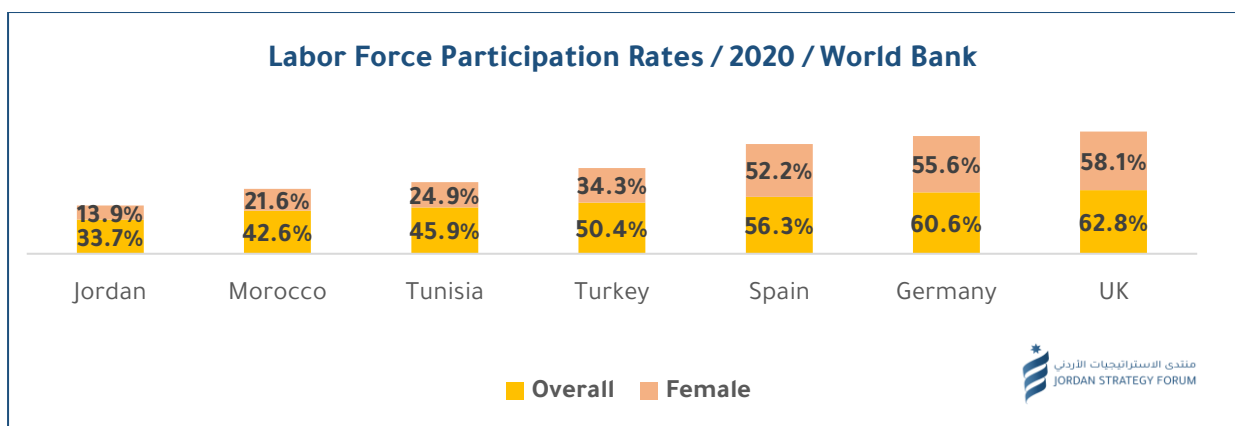
Within the context of the above-mentioned observations about employment and unemployment, one should also note three additional observations.



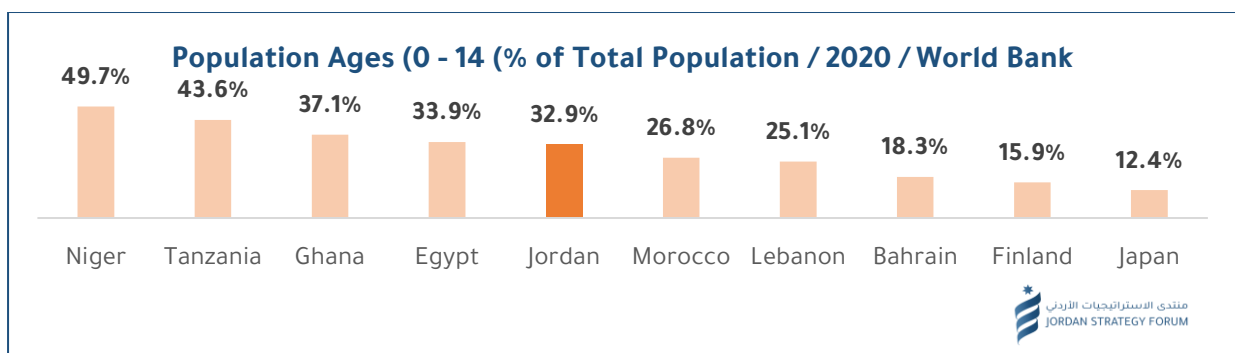
- 1) In addition to the army of the unemployed, Jordan's labor market has a significant proportion of informal employment. While the informally employed play a role in production, employment creation, and in income generation, it is known that such workers are vulnerability, earn less income, and suffer from poor working conditions in general.



- 2) Jordan is different from many countries in its labor force participation rate. During the 2nd quarter of 2021, the overall participation rate was equal to 33.7%. For females, this rate was equal to 13.9%. These rates are much lower than those in many countries.



- 3) About 33% of Jordan's population is between 0 - 14 years old. Naturally, this implies that unless something is done about the existing high unemployment rates, the challenge of unemployment would only become even more challenging.



3. The Supply and Demand Sides of the Labor Market in Jordan

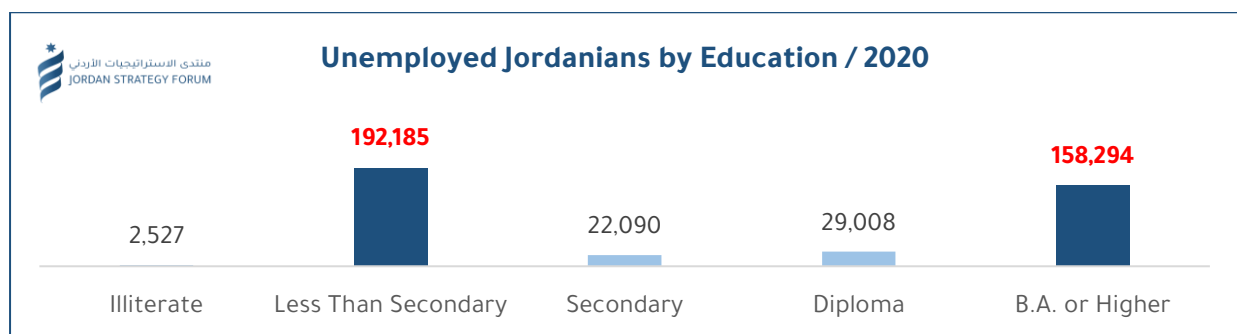
Jordan faces a reckoning when it comes to the swelling numbers of the unemployed individuals. The hitherto existing unemployment rates require urgent attention. Together with the private sector, this issue should be the top priority of the government in the immediate future, as well as in the short-term, medium-term, and long-term.

Unemployment in Jordan, like in any other country, can be the result of the dynamism of two main labor market issues.

- 1. The Supply Side:** Human capital is inadequate, and does not respond adequately to the needs of labor market.
- 2. The Demand Side:** Economic growth is too weak to generate sufficient jobs.

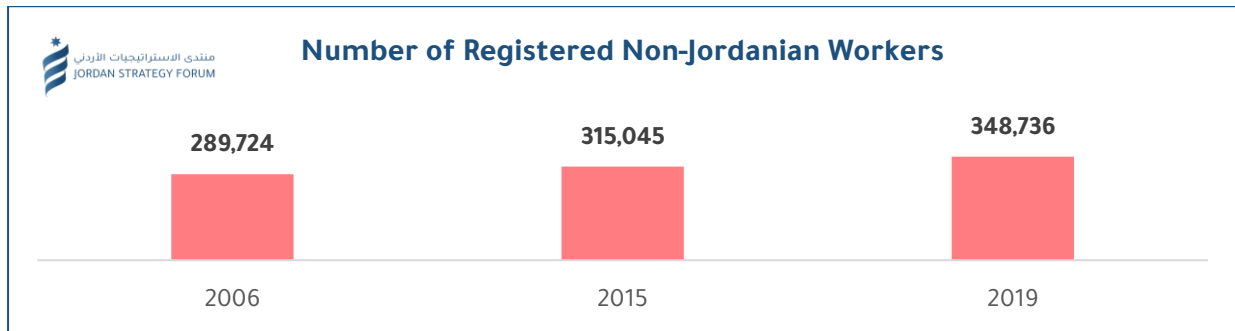
The Supply Side: This side of the labor market is responsible for a large proportion of the unemployed. To illustrate this, we outline three observations:

1. A large proportion of the unemployed Jordanians are with less than secondary education (192,185 individuals). Most of these individuals are males (183,144 individuals). **This number (183,144) is equivalent to about 45.3% of the total number of unemployed Jordanians** (Department of Statistics).



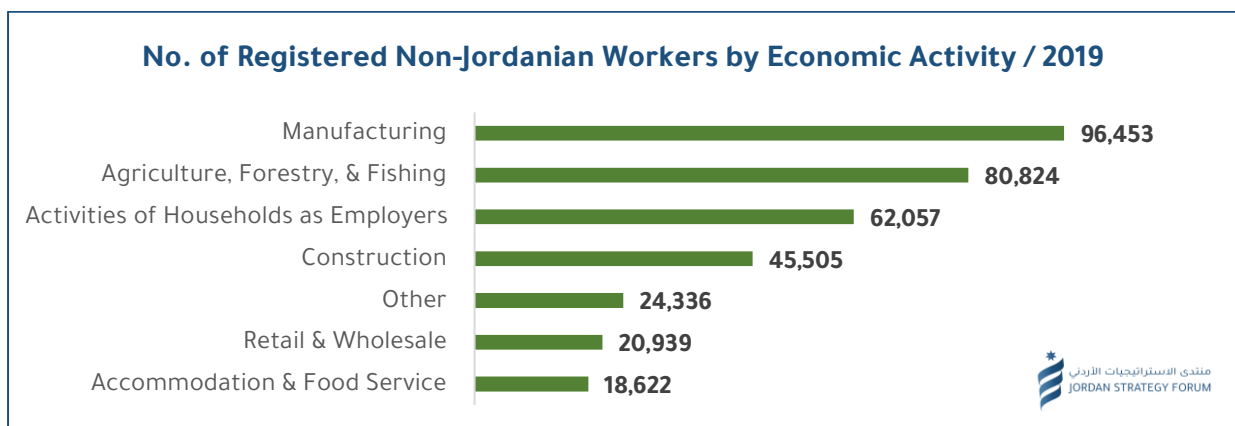
Source: Department of Statistics

2. The number of registered expatriate workers has increased from 289,724 individuals in 2006 to 348,736 by the end on 2019. This number is equivalent to 181.5% of the unemployed Jordanians who have less than secondary education. This observation implies that there is a case for **"replacing"** at least a proportion of the expatriate workers with Jordanians who have less than secondary education.



Source: Ministry of Labor

- The case for replacing at least of proportion of expatriate workers becomes even stronger when one looks at where they work. Indeed, significant proportions of expatriate workers work in the manufacturing, agriculture, household services, construction, retail and wholesale, accommodation and food, and in other sectors.

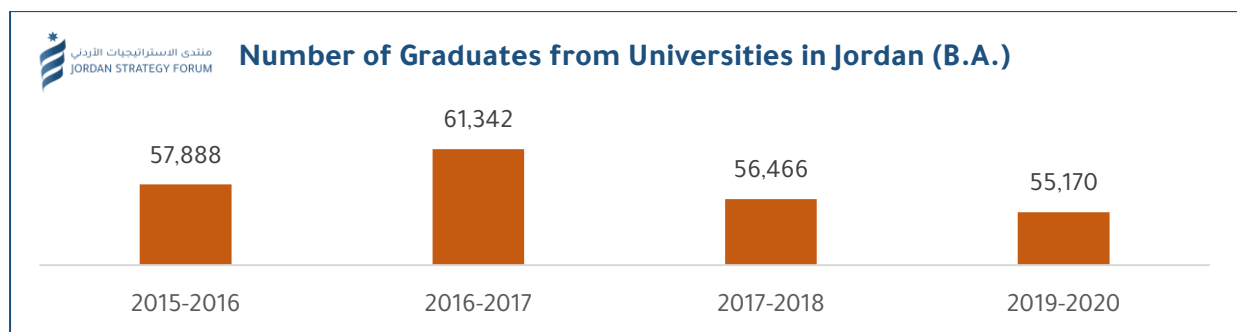


Based on the above-mentioned three observations, the supply side of the labor market in Jordan is responsible for a significant proportion of the unemployed Jordanians.

The Demand Side: This side of the labor market is responsible for a large proportion of the unemployed. To illustrate this, we outline three simple observations:

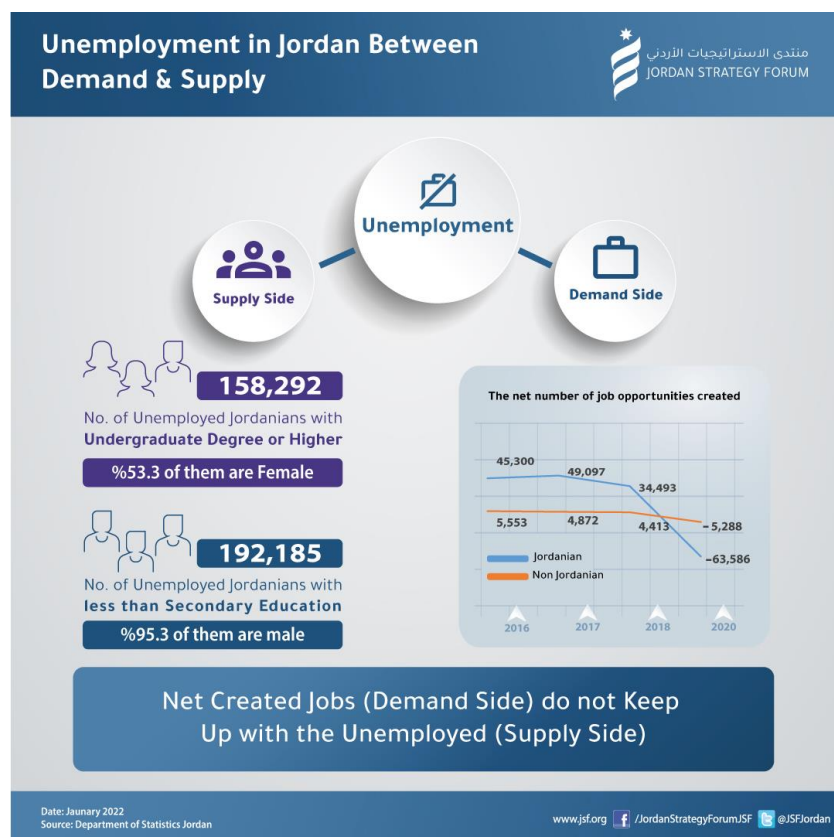
- A large proportion of the unemployed Jordanians are with at least an undergraduate degree (158,294 individuals). This number of composed of 84,382 females and 73,912 males. In other words, **this number of “educated” and unemployed (158,294) is equivalent to about 39.2% of the total number of unemployed Jordanians.**
- In Jordan, there are 29 universities, 10 of which are public. During the second semester of the academic year 2020-2021, the total number of enrolled students at these universities is equal to 332,413. Most of these students are undergraduate students. The number of enrolled students at the undergraduate level (B.A.) is equal to 279,488 (about 85%).

3. Based on the 2020 Annual Report, published by the Accreditation and Quality Assurance Commission for Higher Education Institutions, the total number of the specializations offered by all universities is equal to 1,043. The largest university in Jordan (University of Jordan) offers its students 81 undergraduate specializations.
4. Based on the latest published figures by the Ministry of Higher Education & Scientific Research, in the academic years 2017-2018 and 2019-2020, a total of 56,466 and 55,170 students graduated with an undergraduate degree. These graduates obtained their degrees in almost all specializations offered by other universities across the globe.



Source: Ministry of Higher Education & Scientific Research

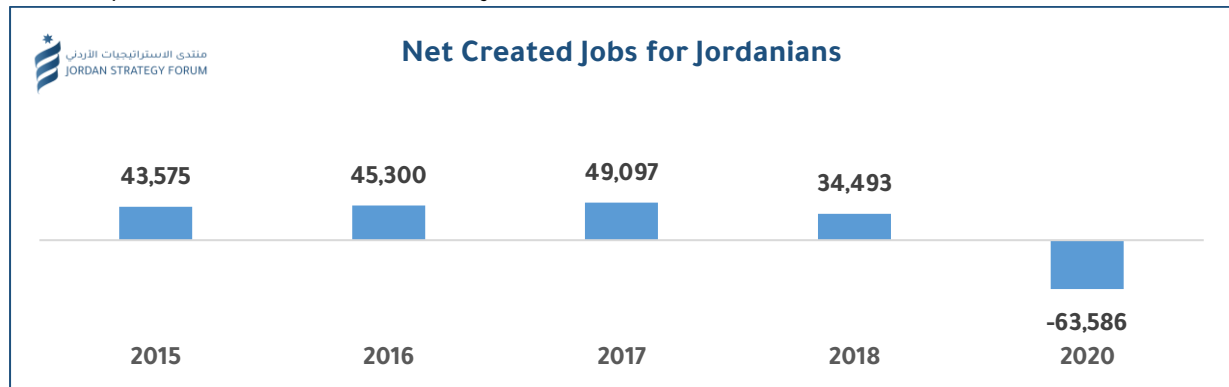
Based on the above-mentioned three observations, the problem of the 158,294 unemployed Jordanians with a university degree is the demand side of the labor market, and not themselves / the supply side. In other words, it is the Jordanian economy's growth rates which are not generating sufficient employment opportunities.



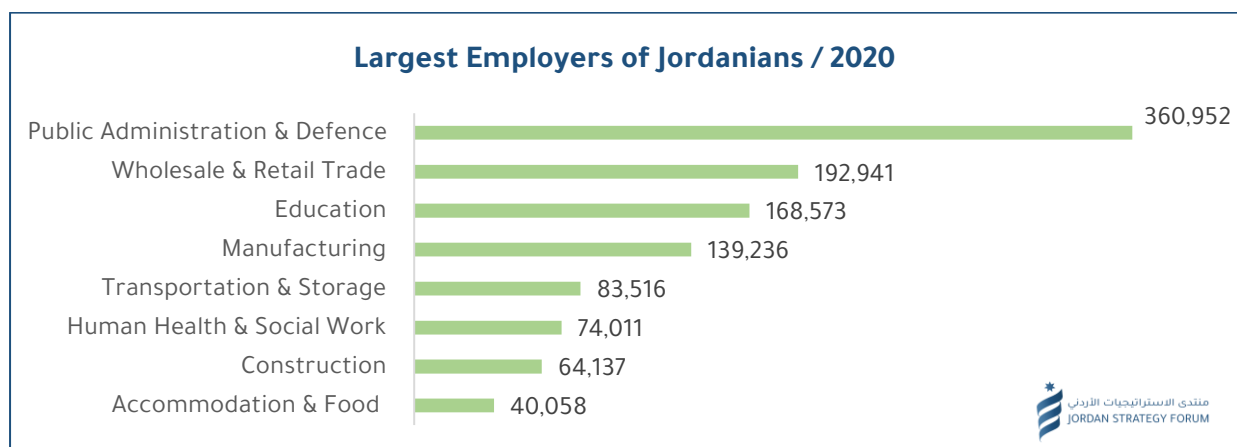
4. Employed Jordanians and Employment Growth

Below, we outline a number of observations about the employed Jordanians.

- A. As one might expect, during the year 2020, and as a result of COVID-19, the number of net created jobs for Jordanians was equal to -63,586, and this number is in contrast to the positive number of created jobs in 2015 - 2018¹.



- B. In 2020, eight sectors employed about 85% of the employed Jordanians. These sectors employ 27.0%, 14.4%, 12.6%, 10.4%, 6.2%, 5.5%, 4.8%, and 3.0% of employed Jordanians respectively.



Source: Department of Statistics

- C. During the past few years, it is unfortunate to note that almost all of the largest eight employing sectors of Jordanians have experienced decreases in their employed numbers. In 2020, the only sector which experience growth in employment is manufacturing.

¹ Data for 2019 was not collected by the Department of Statistics (DoS) due to the COVID-19 pandemic.

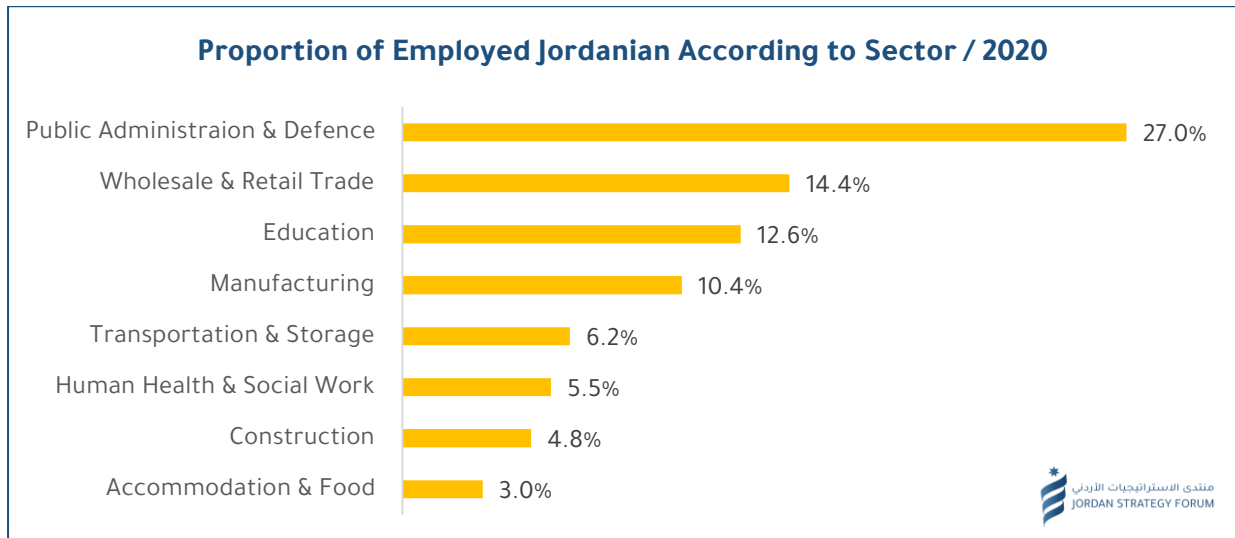
Employed Jordanians by Main Economic Activity				
	2017	2018	2019	2020
Accommodation & Food	41,690	43,993	43,771	40,058
Construction	72,004	69,998	67,718	64,137
Human Health & Social Work	75,337	77,178	74,616	74,011
Transportation & Storage	104,351	98,014	94,257	83,516
Manufacturing	146,177	136,049	130,339	139,236
Education	187,596	187,131	177,314	168,573
Wholesale & Retail Trade	231,140	215,570	205,395	192,941
Public Admin. & Defence	379,743	373,152	373,717	360,952
Total	1,465,746	1,411,265	1,377,905	1,338,308

Percentage Change in Employed Jordanians			
	2018	2019	2020
Accommodation & Food	5.5%	-0.5%	-8.5%
Construction	-2.8%	-3.3%	-5.3%
Human Health & Social Work	2.4%	-3.3%	-0.8%
Transportation & Storage	-6.1%	-3.8%	-11.4%
Manufacturing	-6.9%	-4.2%	6.8%
Education	-0.2%	-5.2%	-4.9%
Wholesale & Retail Trade	-6.7%	-4.7%	-6.1%
Public Admin. & Defence	-1.7%	0.2%	-3.4%
Total	-3.7%	-2.4%	-2.9%

Based on the above-mentioned observations, two questions must be raised and answered:

1. Which sectors are the largest employers in the economy?

- A. It is clear that public administration and defence is the largest employer of Jordanians (27.0%). For obvious reasons, no one should argue that this sector can or should create more employment opportunities sufficient enough to reduce the overall unemployment rate.
- B. The second and third largest employers of Jordanians are the wholesale and retail trade (14.4%) and education (12.6%) sectors. **Basic economic sense asserts** that these sectors are likely to grow in employment according to, mainly, the demography (population) of the country. No one can argue that these sectors will create sufficient employment opportunities to reduce the overall unemployment rate.



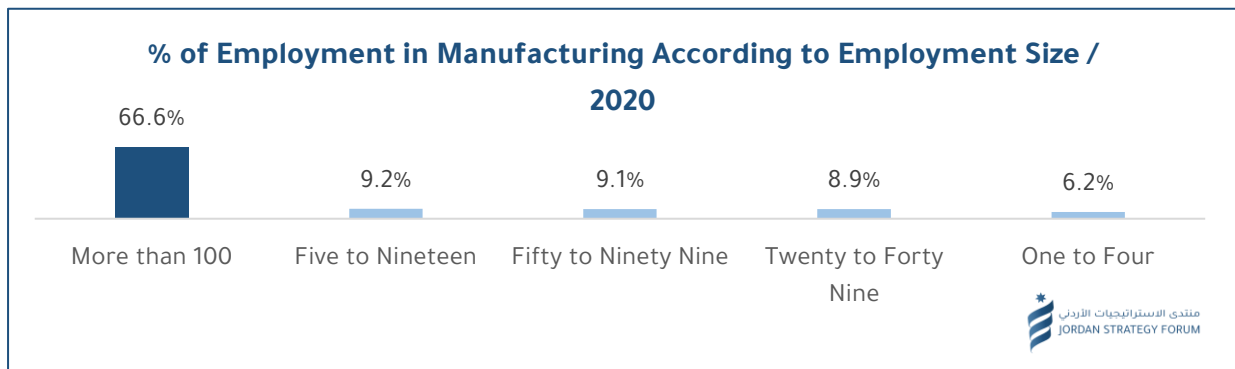
Source: Department of Statistics

- C. The fourth largest sector in terms of employing Jordanians is **manufacturing (10.4%)**. This is the sector that should attract the attention of all stakeholders including the government. Indeed, assuming that they can increase their production levels, for either the export market or local market (import substitution), **they can generate sufficient employment opportunities. Indeed, if this sector grows, it will, not only generate new jobs in other sectors, but also will also diversify the composition of GDP.** Within this context, the following section of this policy paper considers the role of this sector in realizing economic growth and the creation of job opportunities.

2. Who are the manufacturing enterprises?

Based on the Annual Reports of the Social Security Corporation (SSC), we outline below a number of observations.

- A. In 2020, the total number of socially insured manufacturing establishments was equal to 9,385.
- B. The total number of socially insured individuals who work in manufacturing has increased from 167,537 persons to 186,961 persons in 2020.
- C. In 2020, and in manufacturing, a total of 124,605 socially insured individuals worked at establishments that employ 100 or more individuals. This number constitutes 66.6% of all employees in manufacturing. It is these establishments (whose number is equal to 257) that employ the bulk of the socially insured.



3. Economic Growth and its Relationship with Employment

Within the context of the number of manufacturing enterprises that employ 66.6% of all employees in manufacturing, it is useful to remember one useful economic measure and that is the employment elasticity of economic growth. This concept measures whether or not there is a “stable long-run” relationship between real growth and employment growth, and there is what is the elasticity?

Based on the period 1991- 2019, it is interesting to note that at the national level, based on the JSF’s estimations, there is a stable long-run relationship between economic growth and employment growth, and this elasticity is equal to +0.39. This figure implies that a 0.39% increase in employment is associated with a 1% increase in real GDP.

At the sectoral level, the elasticities of the largest four sectors in employment levels reveal interesting results.

1. The elasticity of public administration is low (+0.25).
2. The elasticity of education is equal to +0.39.
3. The elasticity of manufacturing is equal to +0.32.
4. The elasticity of wholesale and retail is equal to +0.35.

Employment Elasticity of Economic Growth: Sectoral Level			
Sector	Elasticity	Sector	Elasticity
Public Administration	+0.25	Mining	No
Accommodation & Food	No	Other Services	+0.41
Agriculture	+0.11	Real Estate & Business Services	+0.75
Construction	No	Utilities	No
Education	+0.39	Wholesale & Retail	+0.35
Health / Social Services	No	Finance & Insurance	+0.49
Manufacturing	+0.32	Transport & Storage	+0.38

The Relationship Between Real GDP Growth and Growth in Employment

When real GDP grows by %1, the number of employed people in the Jordanian economy increases by %0.39



Date: January 2022
Source: JSF Study «The Unemployment Challenge in Jordan: Between Demand & Supply»

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The fact that there is a long-run relationship between economic growth and employment growth in manufacturing, and the value of this elasticity is relatively high is another reason why “manufacturing per se”, should be looked at as a “good sector” to reduce unemployment.

5. Jordan Strategy Forum's Recommendations

To make a dent in the overall unemployment rate in Jordan, the JSF recommends two main policy options.

1. It is necessary to identify the real reasons behind the exceptionally high unemployment rates, as well as the presence of "large" numbers of expatriate workers, and to communicate these reasons transparently with the general public. Following this, a "national dialogue" between all relevant stakeholders should be conducted to come up with practical recommendations and solutions that contribute to reducing the unemployment problem.
2. The fact that the number of the socially insured establishments that employ 66.6% of the insured individuals working in manufacturing is relatively small (257 enterprises), the government should get together with the top leadership of at least some of these companies and listen to their plans, ambitions, and grievances. The objective of such meetings is to discuss how these (and others too) establishments can increase their employment levels.
3. Narrow the existing gaps between the public sector and private sector in terms of benefits (wages, working hours, health insurance, employment security, getting bank credit, and others) to match their working conditions and benefits. This should reduce the demand for jobs in the public sector.
4. Activate decent working conditions that respect the rights of workers within a set of controls that guarantee social protection and appropriate wages. Such controls should have a direct impact on employment and reduce the unemployment problem, especially among the unemployed group whose level of education is lower than secondary, as well as among females.
5. Develop a flexible and practical mechanism that does not close the door to expatriate workers, but rather, work on legalizing them according to the level of the required skills, and the need of the labor market.
6. Harmonize minimum wages and decent working conditions between Jordanian and non-Jordanian workers, minimize the existing opportunities to exploit expatriate workers by reviewing work permit and law enforcement systems, activate electronic transfer of wages, and automate the labor complaints system and link it to inspectors.
7. The government should give priority to the private sector in its public procurement process, and use it as a motivational tool for employing Jordanians while implementing decent work standards.
8. The government and the private sector should seek higher levels of domestic and foreign investments. In fact, investment is known to boost the manufacturing and service sectors, which in turn, creates more jobs and reduces unemployment. In addition, increased levels of employment translate into higher income and spending, and thus, increased economic activity at the macro level.
9. In line with global trends, higher education in Jordan should focus more on preparing students for a changing and dynamic world in line with the requirements of the labor market. Prestigious universities have moved away from the usual method of indoctrination to teaching students "how to think" or what is known as "learning how to learn". Today, and as a result of the fourth

industrial revolution, universities focus on ensuring students' readiness to adapt constantly to renewable and modern ideas.

JSF Recommends to make a positive change in unemployment rate in Jordan



The government should give priority to the private sector in its public procurement process, and use it as a motivational tool for employing Jordanians while implementing decent work standards.



Activate decent working conditions that respect the rights of workers within a set of controls that guarantee social protection and appropriate wages, especially among the unemployed group whose level of education is lower than secondary, as well as among females.



Enable manufacturing enterprises to expand in production and employment creation.



Develop a flexible and practical mechanism that does not close the door to expatriate workers, but rather, work on legalizing them according to the level of the required skills, and the need of the labor market.



Encourage domestic and foreign investments to boost productivity and create employment opportunities.



In line with global trends, higher education in Jordan should focus more on teaching students "how to think" in a changing and dynamic labor market demands.

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