

Discussant Comments on “Skills Gaps and Meritocracy Deficit: Challenges in the Transition from Education to Work in MENA.” By Juan Manuel Moreno

By Ragui Assaad

Thank you very much for the opportunity to discuss such an excellent presentation. Mr. Moreno is absolutely correct in characterizing the transition from Education to Work in MENA as a “double transition” or at least what I would characterize as one transition involving a double hurdle. First the hurdle of obtaining skills and competencies in an educational system that is oriented to providing credentials with little in terms of the skills content that is useful in a competitive and increasingly globalized world economy, and second the hurdle of finding a decent job in economies that have small protected and uncompetitive private sectors that are incapable of generating enough decent employment.

This characterizes both the supply side and demand side of the problem of skills and employability in the Arab World. There is an ongoing debate among experts in the region as to whether the problem is on the supply side, i.e. the system that produces human capital in the region, or on the demand side, the deployment of this human capital. Some argue that if we fix the education system so that it produces better skills rather than simply credentials, we will resolve the mismatch in the labor market and graduates will be more employable. Others insist that no matter what happens to the supply of skills, there is simply insufficient demand for these skills due to the structure of MENA economies. They argue that the development path the region as pursued resulted in small dependent and uncompetitive private sectors that prefer to engage in rent-seeking rather than compete effectively in a world economy.

Mr Moreno correctly argues that there are both supply and demand side factors that limit the employability of graduates in MENA and that focusing on one side or the other is a mistake. I wholeheartedly agree. The question is what is at the origin of these problems in MENA? What makes the region distinct in having a specific combination of high levels of human capital production with low employability? I would argue that the supply side problems emanate from a history of demand-side distortions that have sent the wrong signals to the education system for a long time to produce the wrong kind of human capital by focusing on the production of credentials rather than skills. The origin of the demand side distortion is the long tradition in the region to offer graduates of the education system either an explicit or implicit promise of a government job if they obtain a minimum educational credential. Educational credentials were therefore widely seen by students and their parents as a means to join the middle class by means of a stable lifetime government job. This has led to what has been termed by my good friend Djavad Salehi-isfahani, the “credentialist equilibrium.” Governments use credentials rather than skills to assess candidates for employment. Students and their parents seek out such credentials to maximize their chance of accessing these plum government jobs, and mostly

public education systems, and the politicians that support them, oblige by producing large number of graduates with these credentials.

The success of this credentialist equilibrium in dramatically increasing educational attainment in the MENA region has been remarkable. The Arab World has experienced the fastest increase in educational attainment among all world regions in the past 30 years. Using data on mean years of schooling attained by country from the Barro and Lee data set, we can see that out of the top 20 countries with the fastest increase in mean years of schooling from 1980 to 2010, 8 were Arab countries and a ninth was Iran. The tragedy however is that this dramatic increase in years schooling has not been accompanied by a commensurate increase in learning and skills. As Mr. Moreno has shown us, Arab countries lag far behind their peers at similar income level in terms of test scores in international tests. What he didn't tell us is why. I argue that the reason is that learning and skills were never part of the bargain. Students and their parents want to acquire credentials to access valued government jobs and these government jobs never really required anything beyond the piece of paper that certifies the credential and possibly some luck and/or connections.

Government hiring was not simply a minor distortion in otherwise well-functioning economies. Government hiring is a distinctive feature of the region's political economy and the nature of social contracts that governed, and in some cases still govern, state-society relations in the region. The so-called "authoritarian bargain" social contracts were based in part on extensive use of public sector employment as a tool to politically appease key segments of the population, particularly the middle classes, and purchase their political quiescence. Funded by rents derived from natural resource wealth, these social contracts survived a long time in the region, and when they became fiscally unsustainable in some countries the government side of the bargain was slowly eroded in a way that shifted the burden to young new entrants while protecting the entitlements of incumbents. Thus my argument is that the long-term distortion in the demand for human capital brought about by politically-driven public sector hiring has resulted in a durable and deep distortion in the production – or supply side -- of human capital in the region.

Why then haven't the signals transmitted to the education system improved when the governments of the region began to curtail employment significantly, starting as early as the 1980s in some countries. Surely there was plenty of time for market forces to drive a better outcome in the market for human capital. This is where we come to Mr. Moreno's second hurdle, the nature of the region's private sectors in the post state-led development period. The formal private sectors that emerged from these partial liberalization episodes are rife with cronyism and uncompetitive rent-seeking behavior that attempts to capitalize on close relationships with authoritarian rulers to gain advantage. Not only have they contributed little

to employment growth, they have felt no competitive pressures to use meritocratic principles in hiring. There is clear evidence that private sector employers finding little information to garner from the educational credentials of job applicants are using social class markers as a way to select their employees. A recent study conducted on higher education graduates in Egypt and Jordan shows no link between the labor market outcomes of graduates and the selectivity of the educational institution in which they studied, whether it was a public or private institution, and the quality of education processes the institution followed. The only thing that seemed to matter was the level of education of the graduate's parents, where the graduate was born, and what kind of primary school they were able to go to.

Why are private employers using non-meritocratic hiring practices? First, there is little cost to doing it given the non-competitive environment in which they operate. Second, there is little reliable information on worker skills and learning they are able to glean from existing credentials and formal qualifications.

Mr. Moreno proposes three ways in which education systems can build employability in MENA: (i) Close the information and knowledge gaps, (ii) replace the logic of selection with the logic of learning and (iii) make employability cut through a renewed partnership between education and training and the private sector. I wholeheartedly agree with these recommendations. However, in order to know how to fix the information gaps in the labor market, we need to understand their origins. Labor market signals are being swamped by signals sent by governments as the dominant players and employers in the labor market. Students and their parents acquire the educational credentials necessary to fulfill their aspirations of getting a government job. They see work in the private sector as a fallback position that is inferior by a long shot to government employment. Unless governments stop sending signals that employment is available for graduates at conditions that are far superior to what the private sector is willing and able to offer, there will continue to be an information gap. If governments are going to hire, this hiring must be highly meritocratic with very tough accessibility requirements so that it sends the signal that only the top applicants can aspire to these jobs and thus readjust the expectations of all others.

Within the education system, I totally agree that the logic of learning must supersede the logic of selection, but the question is how, given the existing incentive structure of public education systems. With respect to how to organize the technical and vocational education system, I am in complete agreement with Mr. Moreno that it has to be through a public-private partnership. Public schools and training centers simply do not know what skills are currently salient in the labor market at any point in time and do not have the incentive structure of the flexibility to respond to market needs. They are a throwback to an era when public sector firms dominated the economy. The question is what is the conception of the private sector that will be a partner

in this endeavor. Unless we involved the whole private sector, with its small and medium enterprises, the partnership will not work. So far, such partnerships have been limited to the large connected firms that contribute relatively little to employment.