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SUPPLY AND DEMAND IN THE SYRIAN LABOR MARKET

Case
Study

Keywords

*Labor market,
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Unemployment*

JEL Classification

E23, J23

Abstract

Unemployment is one of the most serious crises which confronts countries, and has many negative social effects; it justifies government intervention using mechanisms of the balance of supply and demand. It is one of the most severe problems that the Syrian labor market faces, which is under constant pressure because of the new flows of young people. The aim of this study is to shed light on the concepts which relate to the labor market, and provide a conceptual framework to understand the Syrian labor market during the war, as well as making some recommendations to help the Syrian labor market recover after the war. According to this study findings show that the unemployment rates in Syria remained stable during 2009 – 2010 (8.6%). Subsequently, the rate rose to (14.9%) while in (2012) it rose sharply to (34.9 %) as a result at the end of 2012 the unemployment rate was (26.8%) higher than it was in 2009.

INTRODUCTION

Globalization and technical development have caused many problems, including unemployment, internal and external migration, questions concerning the concepts of justice and equality in the distribution of employment opportunities and the optimal use of wealth in addition to imbalances in the labor market. The labor market is a market similar to any other, in that it is a function of the forces of both demand and supply. Hence, labor demand is related to the demand for workers in an economy, and “is any decision made by an employer regarding employees, employment, competition and training.” (Hamermesh, 1996). (Hall, 1991) observed that labor demand refers to the number of hours of hiring that an employer is willing to do based on the wage rate, the unit cost of capital and the price of goods. According to (Hall, 1991) the basic determinants of the slope of the labor demand are: firstly, the diminishing marginal product of labor, secondly the fact that the firm maximizes its profits when the cost of hiring an additional worker equals the value of that person’s output (Rocheteau and Tasci, 2007) . Thirdly, changes in the elasticity of product demand as output varies, given that (labor demand is derived from product demand). The final determinant is complementary across firms and industries.

According to neoclassical economics the demand for labor was viewed as derived from consumer’s demands for final goods and services, and related to the availability of employment (Marshall, 1920, cited by Hamermesh, 1996). The other side of the labor market is “the supply side” which relates to individuals and how they supply their labor. In Killingsworth’s opinion the total labor supply depends on the way the population considers decisions made by earlier generations. “The predicted relation between hours of work and the wage rate is called the labor supply curve” (Killingsworth, 1984). Furthermore, this also includes the total number of labor hours offered by people for work at a given wage rate. In addition, Killingsworth, described the equilibrium in the labor market as state of equality between supply and demands (Killingsworth, 1984), in equilibrium all persons who are looking for work at the going wage can find a job (Figure 1). We can say that the labor market consists of the demands of employers how they want to hire people to work and produce and the supply of people who want to work as employees. When the supply curve and the demand curve intersect, the equilibrium point appears at crossing point to illustrate the equality between supply and demand on the labor market. Above the equilibrium point there is unemployment because there is an excess of labor supply but firms do not

want to at high wages. Below the equilibrium point there is an excess of demand (many job vacancies because of low wages), which means people do not want to work for low wages.

UNEMPLOYMENT

Mankiw defined unemployment as “the macroeconomic problem that affects people most directly and severely” (Mankiw, 2012). It also poses a significant problem for most transition economies (Botrić, 2011).

According to Ireland study, the American Bureau of Labor Statistics (BLS) puts each adult aged 16 and over into one of three categories: firstly, paid employees, (both full time and part time), people who work in their own business, and those who were temporarily absent from work because of illness. Secondly, the unemployed, which includes people who were not employed, were available for work, and had tried to find a job within the previous four weeks, as well as those who were temporarily laid off and waiting to be recalled or on vacation. Thirdly, those not previously mentioned: students, those looking after a household and retired people (Ireland, 2013). After determining unemployment categories, we must note that the labor force is the sum of the employed and the unemployed: $L = E + U$. (Where L is labor, E is employment, and U is unemployment).

Types of unemployment

While cyclical unemployment oscillates with the business cycle and frictional unemployment relates to the transition states of the individuals on the labor market, structural unemployment should be the type which is most closely related to the underlying characteristics of the analyzed economy (Botrić, 2011). So individuals who are unemployed most frequently are in one of the following groups: firstly, frictional unemployment: this is short-term unemployment which is associated with the matching of workers and jobs. This type of unemployment, which is related to the time it takes workers to search for a job, is called frictional unemployment (Mankiw, 2012). Consequently, we can say that frictional unemployment occurs when people change their jobs regularly according to their personal circumstances. It occurs because time is needed for workers to search for the jobs that best suit their tastes and skills (Levernier and Yang, 2011). Secondly, structural unemployment: this is long-term and chronic unemployment that occurs because of a mismatch of skills due to a lack of skills and various job requirements (Frank, 2007). In other words structural unemployment is unemployment that results because the number of jobs available is insufficient to provide a job for everyone who is looking for one (Levernier and

Yang, 2011). According to (Orlandi, 2012) structural unemployment is the “natural” rate of unemployment that the economy would settle at in the long run in the absence of shocks. . Furthermore, many researchers have identified factors which lead to structural unemployment such as, tax demands: which effects on the labor market (Arandarenko and Vukojevic, 2008), and the minimum wages which is considered another impediment to labor market clearing (Gianella et al. 2008). Other factors include employment protection, such as legislation and institutions (Ederveen and Thissen, 2007) and vacancy rates (King and Morely, 2007). The third type is cyclical unemployment, which occurs when there is not enough aggregate supply in the economy to provide jobs for everyone who wants to work. Demand for most goods and services falls, less production is needed and consequently fewer workers are needed, wages do not reach the equilibrium level, and mass unemployment results (Keynes, 1936).

LABOR MARKET SHORTAGE

Labor shortage refers to the inequality between the demand and the supply in the labor market, where the employer cannot find workers. It refers to a situation in which labor demand exceeds labor supply (Reymen et al, 2015). A distinction should be made between the two major types of market shortage, quantitative and qualitative (Reymen et al, 2015). Quantitative shortage (aggregate excess demand) consists of a supply side and a demand side, with the supply side consisting of a decline in the population of working-age due to (demographic trends - immigration) and a decrease in the participation rate, caused by (the inactivity of marginal groups, e.g. early retirement - low participation rates among women and the disabled). The demand side, on the other hand, includes an increase in the demand for labor or for specific goods and services caused by (economic growth-ageing changes in consumer tastes - changes in the price of other -production factors), as well as any increase in local labor demand (geographical mismatch). The second type is a qualitative shortage (specific excess demand) which also consists of a supply side and a demand side. The supply side includes the educational choices and options of students (skill mismatch) and the preferences of the labor supply (preference mismatch), as well as suboptimal search channels (information mismatch). The demand side includes changes in required skills, i.e. skill mismatches such as (technological changes - sectoral changes and occupational changes). The difficulty experienced in filling vacancies also relates to skill mismatches, such as (recruitment rigidities - increasing replacement demand) the quality or

image of jobs; these are related to preference mismatches and suboptimal search channels information mismatch.

THE SYRIAN LABOR MARKET

The Syrian labor market is under constant pressure because of the new influx of young people with an increasing of working-age population. Unemployment is usually caused many factors, (economic, social, political, population, administrative) and it is one of the fundamental problems in the Syrian economy which had a constant stable unemployment rate about 8% during the period from (2003 to 2010).

According to a government report, the rate of demographic growth in Syria is still high in recent years, and is in the range of 2.45 percent. The economic dependency ratio in Syria is up to 4.4 percent, because of the rising demographic dependency ratio due to the youthful nature of the Syrian population and weak economic participation of women in the Syrian labor market. The features of the Syrian labor market are evident in the following points: internal migration towards safe areas and acceptance of very low wages (wage gambling), while qualified and trained employees have migrated because of low wages. Increasing unemployment rates have lead to higher crime rates, as well as, unequal opportunities between supply and demand, where there is a supply gap in unsafe areas and demand gap in safe areas. There is a lack of qualified and skilled labor, and finally low performance in both the private and the public sectors due to the lack of workers.

In general, we can distinguish two main elements in problems facing the Syria labor market, firstly, supply, since there are a many people who are willing to work (excess supply), but the very low wages have pushed professionals to emigrate, while on the other hand those who are not well qualified (insufficient education and experience) cannot find jobs with good wages, especially in safe areas, and so still searching for job.

Consequently, the supply side is characterized by a high rate of growth of the labor force (a young population means a young nation) and the low level of education of the labor force.

On the demand side, because of the intensive destruction of Syrian infrastructure and the enormous damaged suffered by companies especially in the main cities like (Aleppo – Homs – suburban Damascus) which have ceased activity been completely destroyed or moved to other countries, there are not enough employers to absorb the excess of labor force supply. The demand side is therefore characterized by sharp volatility and lower economic growth, relatively low investment rates in addition to poor distribution of wealth and

incomes, and slow job creation through real productive projects which are able to absorb graduates and job seekers. The state budget is limited as is amount devoted to education and maintains a large numbers of workers who have reached retirement because for social reasons (immigration - war).

Unemployment during the war

A survey of the Syrian labor market was conducted in 2012 (a year after the beginning of the Syrian crisis), which showed an increase in the unemployment rate from 8.6% in 2010 to 14.9% in 2011. By the end of 2012 the Syrian economy had lost about a million and a half jobs the unemployment rate increased rapidly from 14.9% during the first year of the crisis (2011) to 34.9% during the second year (2012). Given the number of jobs which were lost during two years of war, the standard of living of six million Syrians was affected negatively, based on the dependency ratio which amounted to 4.14 in 2010 (dependency ratio = number of residents / number of workers).

The United Nations report released in October 2013 stated that Syrian industrial capacity had decreased in terms of job opportunities, losing nearly two million jobs.

DATA AND METHODOLOGY

The aim of this study is to compare the rate of unemployment before and during the war period in Syria, and shed light on the worse situation in the Syrian labor market, before suggesting a mechanism to mitigate the sharp effects of unemployment through harmony between the private and public sectors when offering job opportunities.

The time period chosen is from (2009 to 2012).

The data sources are ESCWA (United Nations Economic and Social Commission for Western Asia), the Syrian Bureau of Statistics and the Syrian Ministry of Social Affairs and Labor.

To measure unemployment we must first consider those who are considered eligible to work. The definition of the labor force is all employed or unemployed citizens (16+ years of age). Excluded from the labor force are students. The unemployment rates are defined as the ratio of the number of unemployed to the labor force. The rate of unemployment is U/L , where unemployment rate = $((\text{Number of Unemployed}) / (\text{Labor Force})) * 100$ (Mankiw, 2012).

RESULTS

The Syrian economy lost 2.1 million actual and potential jobs between 2010 and 2015. Unemployment in 2015 was 55 percent, up from 54.2 percent in 2013.

The unemployment rate remained stable during 2009 – 2010 (8.6%) in the pre-war period, during the first year of the war the unemployment rate increased to (14.9%) while in the second year (2012) it rose sharply to (34.9 %), so from 2009 until the end of 2012 the unemployment rate had risen to (26.8%).

According to data sources there was continuous increase in the unemployment rate (55%) during 2015, and this is a very dangerous indicator of the negative situation in the Syrian labor market. Moreover, there are no formally updated statistics in 2016, because of the terrible damage to the infrastructure in country. Figures (2 and 3) show the rates of unemployment during the study period. According to previous results, we can draw a labor market graph (demand and supply) for Syria as shown in (Figure 2).

CONCLUSIONS

Unemployment is one of the most dangerous crises which countries face, and has many negative social effects. It is a crisis which justifies government intervention though use of the mechanisms of the balance of supply and demand. Action to restore the balance in the labor market, where unemployment is seen as a kind of imbalance in the social system and the state is not capable of discharging its duties towards its citizens, and a harmful phenomenon is justified even in free economies. The Syrian labor market suffers from a dangerous problem, and even if the war stops the crisis it will not disappear, because of the existence of many problems, including the following.

There are more than five million refugees outside Syria. There are more than four million qualified and trained migrants and there is a large number of senior employees who should retire.

In addition, there is a young population, with more than (7859000) under 15 years. Furthermore, we can ask what the situation will be like after the war.

The study aimed to find some solutions to the problems in Syrian labor market through the following recommendations: firstly, increase investment rates in several sectors which make intensive use of the human element, as well as, improve the level of human development where the government should seek to rebuild the current educational and professional structure. Also, ensure compatibility between labor market requirements and the experiences of graduates and improve working conditions and seek to find optimal benefit

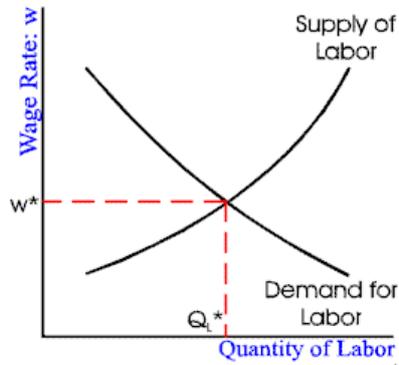
from social security legislation. Secondly, plan for economic and social development (benefit from the experience of countries which have been destroyed by war and then become among the most flourishing economies), and work hard to improve rural areas to encourage people to move there, to reduce the pressure on cities through the establishment of agricultural and industrial projects proportionate the resources available in Syria's eastern region (agriculture and oil), and tourism projects in the country's western areas. With these steps the gross domestic product will be activated and this will be one effective ways to combat unemployment. Finally activate the role of the private sector and encourage it to invest in Syria. (Figure 4) represents a suggested harmony framework between the public and private sectors to treat the Syrian labor market.

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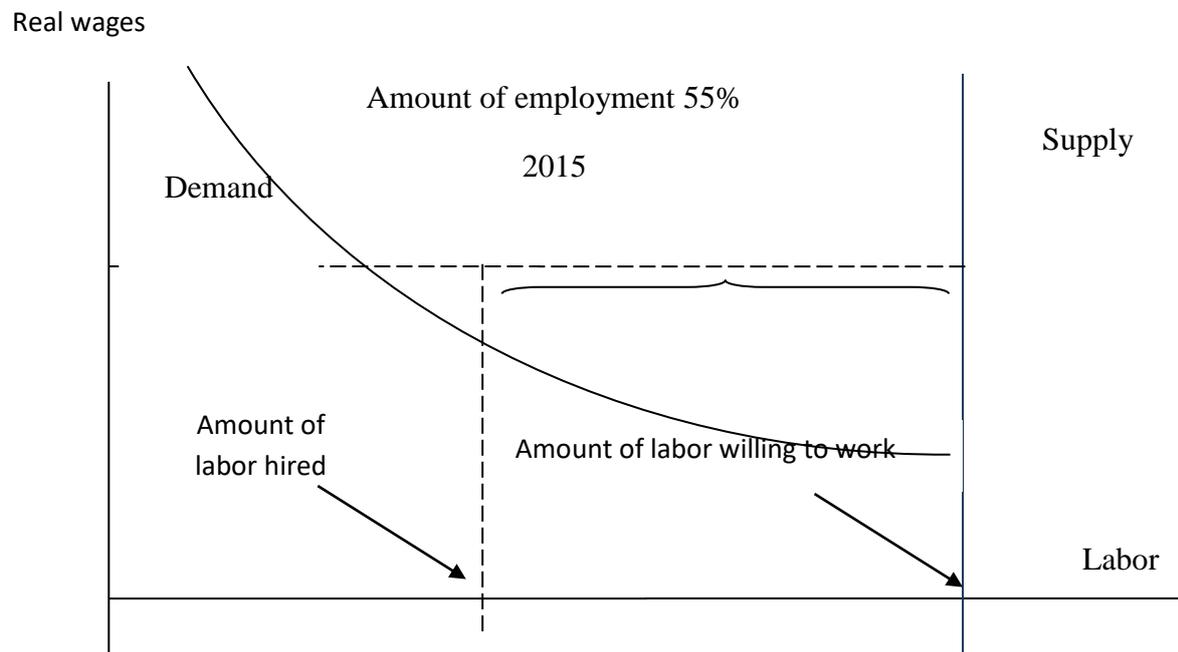
ANNEXES

Figure 1: Supply and demand in the labor market



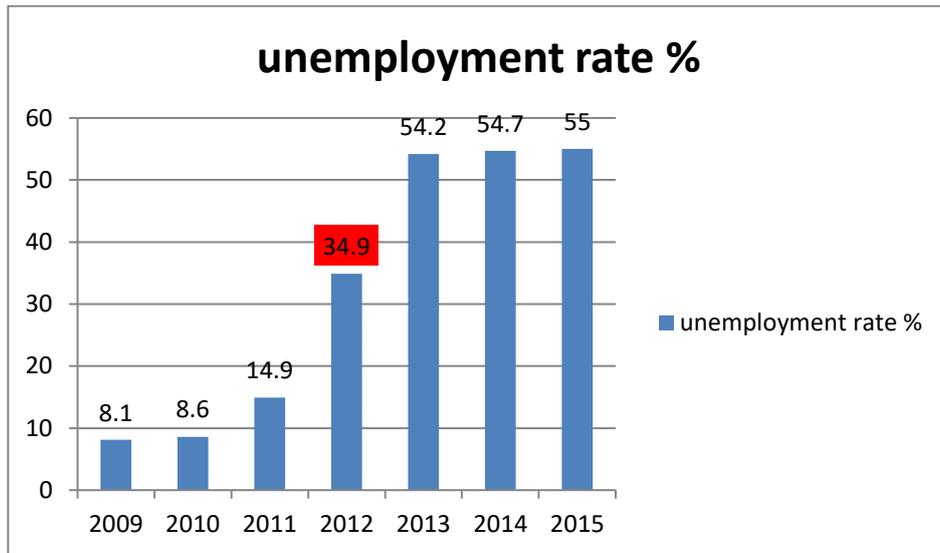
Source: (Mankiw, 2012)

Figure 2: Supply and demand in the Syrian labor market



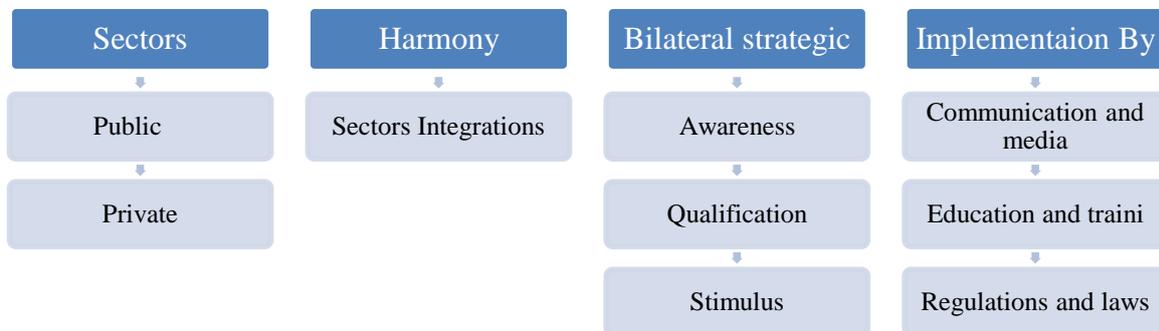
Source: Source: Author's own research

Figure 3: Unemployment chart in the Syrian labor market



Source: Author's own research

Figure 4: Suggested harmony of work between the public and private sectors to redevelop the Syrian labor market



Source: Author's own research