
Is There Relationship between the Employment and Economic Growth in Libyan Economy?

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Abstract

The level of unemployment is a mirror image of the state of a nation's economy. Unemployment is not an easy situation facing policy makers and governments in recent times. Both developed and developing countries have been given attention to the problem of unemployment. This paper examines if there a relationship between employment and economic growth in the Libyan economy. Unlike of many other studies, the result of our analysis shows that there is no clear evidence and direct relationship exists between employment level and economic growth in Libya. The Government employs up to 70% of all salaried Libyans, this figure includes an estimated 300 000 surplus staff. Even though Libyan government faced many difficulties in last few decades in general and in last few years in particular (since 2011), the government continues to employ further. The quota of budget of salary has been increased. The private sector employs only around 4% of the labor force.

Key Words: Unemployment, Economic growth, Government, Private sector, Libya.

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1- Introduction

Before the discovery of oil, at the time of independence in the 1950s, Libya was a traditional agricultural country, although farming was restricted primarily to the coastal regions. Livestock production was also an important. Agriculture employed about 70% of the country's people and it contributed roughly a third of the Gross Domestic Product (GDP) during 1950s (Libya Ministry of Planning, 1976-1980).

In 1959 oil was discovered in Libya that dramatically transformed the country's economy. With a relative small population, the substantial oil revenues provided Libya relatively higher per capita GDP in Africa (Economist, 1995). From 1999 to 2003, the oil sector contributed about 50% of GDP, 97% of the exports, and 75% of government revenues (Libya Ministry of Planning, 1976-1980).

The first major impact of the oil discovery and export of Libyan oil was on investment expenditure by companies working in the country. The second effect was on government expenditure, which increased rapidly as oil revenues became the main source of government finance (Libyan Central Bank, 1970). The Libyan economy is characterized by;

- (a) The dominance of the public sector. Following the Libyan government's nationalization of a controlling interest in all other petroleum companies operating in the country in 1973, the state owns all the oil fields and controls of 70% of its domestic oil production.
- (b) A high dependence on international trade. Exports accounted for 64% of Libya's GDP in 2009 and hydrocarbons (oil, natural gas and petroleum products) make up around 97% of Libya's export (African Development Bank, 2011).

Although oil revenues make Libya rich, it has an economy of less economies diversified in North Africa and among oil producing countries, in the early convening the seventies of the last century followed Libya system oriented economy based on state control over all investment decisions, and imposed restrictions on prices and multiple forms of support, and imposed severe restrictions on foreign trade, and missed the private sector for economic activity.

As a result of this constant intervention by the state has a low level of economic performance, dropped economic growth rate, and low standard of living, and increased exposure of the economy to external shocks, and this has continued deterioration in the eighties to low oil prices and worsening in the nineties as a result of international sanctions (Abudon, R., 2006).

The level of unemployment is a mirror image of the state of a nation's economy. Unemployment is the most not easy situation facing policy makers and governments in recent times. Both developed and developing countries have been given attention to the problem of unemployment.

The Libyan Ministry of Labor estimates that the proportion of unemployed

in Libya is 15 percent of the total workforce. The total number unemployed is about 400,000, of whom about 149,000 have university degrees. It is estimated that there are 600,000 people working in the private sector, with another 600,000 people working in the shadow economy.

Generally, this study is meant to examine if there a relationship between employment and economic growth in the Libyan economy.

2- Literature Review

The unemployed people as including those that are aged 15 and over, who are actively looking for work but fail to find one during a particular reference period (The Federal Office of Statistics, 1996). The concept of unemployment refers to the part of labor force whom did not find a job. (The International Labor Organization, ILO, 2000).

Several empirical studies have been carried out to examine the nature and character of employment situations in developing nations in general and Libya in particular. An example for the oil developing country, Onwioduokit (2006) examined the link between unemployment and several macroeconomic variables in Nigeria and concluded that 'the shift in the composition of unemployment in Nigeria since 2000 is very instructive explaining the unemployment phenomenon in the country.

Walterskirchen (1999) analyzed the link between economic growth and the labor market in the European Union (EU). He found that the relationship between GDP growth and change in unemployment is divided into two components: those changes in employment and unemployment rates governed by economic factors as well as those governed by demographic influences and labor market policies. He employed time series analysis for individual EU country, while for all the countries he employed the use of panel data. They found strong positive correlation between GDP growth and change in the level of employment.

Okun (1962) Concluded that 1% decrease in the unemployment rate is associated with a 3% increase in output. Whitwell and Assured (n.d.) examined the links between fluctuating oil prices, economic sanctions and the employment in the Libyan economy, using a multiple regression model and the Johansen approach to co-integration. They concluded that the fluctuations in oil prices and economic sanctions have strongly affected both Libyan and overseas workers. The periods of sharp decline in oil prices (1983-1998) and economic sanctions (1990-2003) had a negative impact on the movement of skilled overseas employees. This resulted in a huge loss of this type of labor, which is almost impossible to replace in the short term. It could also negatively affect various other sectors in the country, such as oil production and industry, among others.

Causes of Unemployment:

In general, unemployment is a disequilibrium phenomenon, when the la-

bor supply exceeds its demand, labor unemployment may arise. Classical economists attribute unemployment to a situation where labor market does not equilibrate because real wage is set at an inappropriate level. They gave two conceptually separate reasons why the real wage may fail to adjust the competitive equilibrium level. First, the institution of the economy may not correspond to those of a competitive market, information may be costly and there may be traces of monopoly. Another reason for inappropriate real wage according to neo-classical economists is because workers hold incorrect expectations about the rate of inflation. They bargain over money wage to settle for a real wage, which unintentionally deviates from the equilibrium level. Further in their analysis, the demand for labor emanates from the profit maximizing intentions of firms under perfect competition. This leads firms to equate the real wage with marginal physical product of labor hence the demand for labor is a direct reflection of marginal physical product of labor function. The marginal physical product of labor will then be a decreasing function of the level of unemployment and so the demand for labor varies inversely with the real wage. Consequently, if the supply of labor exceeds the demand, there arises the problem of unemployment.

Another factor responsible for excessive labor supply is the rapidly growing urban labor force. This arises from rural-urban migration which generally transforms rural unemployment into open-unemployment in the urban centers (Diejomah & Orimalade, 1971).

Also another explanation of the growing unemployment in some countries especially in developing countries is the neglect of the agricultural sector. The pull factors include a constantly expanding rural-urban income gap in favor of urban resident and a presumed higher probability of securing wage employment in the cities (Todaro, 1989). Wage rate is key in the analysis of unemployment problem as it at the same time influences the amount of labor to be demanded and supplied.

The cultural factors also increase the duration of time for looking for job, many first time job seekers take benefit of family support to wait for the appropriate job opening thus rejecting existing work opportunities that are unattractive to them – a case of voluntary unemployment (Rama, 1998).

Yesufu (2000) discovered that a new and profound cause of unemployment also derives from attempt to manage the economy with policy instruments that are irrelevant. Unemployment may related also to domestic output. There is an inverse relationship between unemployment.

Also labor productivity may lead to unemployment. Technical changes, which may be due to education, improved training and better management techniques, takes place over time. This tends to increase labor productivity. If labor

productivity then increases, fewer workers are needed to produce the same level of output, thus causing unemployment in the economy Jhingan, 2000).

However, the situation seems to be different in developing countries in general and in oil countries in particular. Next section analysis and discuss the circumstance of Libyan economy.

3- Research Findings

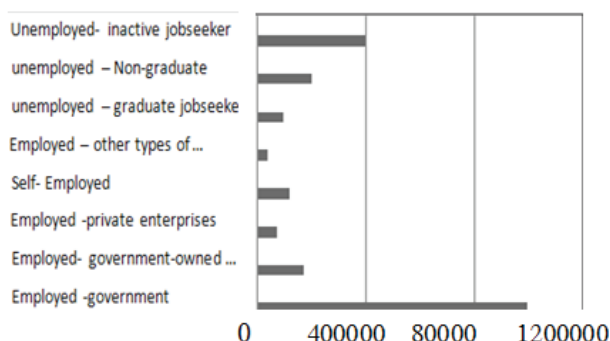
Table (1) illustrates that the unemployment rate increased from 7% in 1990 to 10%, 15%, 20% and 22% in 1995, 2000, 2006 and 2010 respectively. The Libyan unemployment rate averaged 17.7% between 2005 and 2011, reaching an all-time high of 20.7% in December of 2009 and a record low of 13.0% in December of 2005.

Table (1) Unemployment rate

year	workforces	Unempl. Rate
1990	872902	6.73
1991	912420	7.45
1992	954682	8.17
1993	999468	8.99
1994	1048605	9.89
1995	1100956	10.86
1996	1137897	11.54
1997	1177139	12.26
1998	1218888	13.03
1999	1263367	13.83
2000	1310824	14.69
2001	1361534	15.57
2002	1415805	16.51
2003	1473974	17.50
2004	1536420	18.53
2005	1603566	19.61
2006	1675880	20.74
2007	1720521	20.5
2008	1780880	20.8
2009	1878371	21.3
2010	1958985	21.8
2011	1252000	22
2012	1875000	22

Source: Economic Sciences Research Center, economic and social data (1962-2008). Central Bank of Libya (2008-2012).

Figure 1 and table 2 illustrate that the private sector employs only around 4% of the labor force. To sum up, Even though Libyan government faced many difficulties in last few decades in general and in last few years in particular (since 2011), the government continues to employ many. The quota of salary budget has been increased.



Source: World Bank, 2012

Figure (1) labor force by job status

Table (2) Percentage of Labor force by job status

job status	%
Employed -government	47
Employed- government-owned enterprises	8
Employed -private enterprises	4
Self- Employed	6
Employed – other types of organization	2
unemployed – graduate jobseeker	5
unemployed – Non-graduate	9
Unemployed- inactive jobseeker	19

Source: World Bank, 2012

Table (3) illustrates that current expenses ratio to total expenditures increased significantly from 2011. Importantly, high public-sector wages and prospects for more government jobs will decrease incentives for workers to pursue employment or entrepreneurship in the private sector. The attractiveness of public employment – in terms of wages, non-wage benefits and job

security– not only leads youth to queue for public positions but shapes the investments they make in education, ensuring that they follow educational pathways that align with the needs of the public sector rather than preparing them for positions in the private sector (Paul Dyer, Hafeed Al-Ghwell, 2012).

Table (3) the Share of Current Expenses in Total Expenditure

year	Total Expenditure	current expenses
2007	30.883	11.890
2008	44.116	11.875
2009	35.677	10.253
2010	54.499	15.121
2011	23.367	17.580
2012	53.942	36.733
2013	65.284	42.599
2014	43.814	26.892

Source: Libyan Central Bank.

4- Discussion

Two-thirds of the Libyan population (4.17 million out of 6.4 million) are of working age, i.e. between 15 and 64 years of age. The 27% of Libya's population is aged between 16 and 30. However, given that the youth bulge is combined with extremely high employment (about 33%) the labor market concerns can broadly be summarized as being related to youth unemployment.

However, unofficial estimates indicate that unemployment affects at least 30% of the total working age population, being particularly high among the young where it shows a trend toward increase. Data from the Ministry of Labor suggest there are 290,000 unemployed jobseekers among the 400,000 registered jobseekers.

In Libya, high rate of unemployment has been attributed to educational growth, increasing number of graduate turn-out from various educational institutions and failure of the economy to absorb all these graduates, also unemployed people seek for jobs in government institutions in particular.

The government employs up to 70% of all salaried Libyans in the 1.9 million-strong Libyan labor force. This figure includes an estimated 300 000 surplus staff, the public sector is perceived as an important source of employment and stability by Libyan citizens (World Bank, 2012).

In April 2013, the government was paying salaries to 1.486 million public employees, meaning that the Libyan economy maintains some of the highest

levels of public sector employment in the world. According to the African Development Bank (2011), formal employment in Libya consists of just 43 000 people in the oil sector, plus the extensive public employment sector. Public services, including healthcare and education, employ 51% of the formal workforce, but only contribute 9% of GDP (European Training Foundation, 2014).

5- Policy Recommendations

- a. It is become necessary for Libyan Authority to diversify its sources of foreign exchange revenues, so as not to remain almost dependent on crude oil for economic survival.
- b. The government should ensure that human resources are used as effective agents of growth and modernization through general mobilization and purposeful motivation.
- c. Special attention should be given to the promotion of human resource development and in all employment practices.
- d. Government should give attention towards enhancing both human capital formation and optimum utilization of human resources
- e. Encouraging Private Sector Development and Employment.
- f. Government should reduce expenditures on subsidies.
- g. There is need for direct policy to increase the domestic output in order to stimulate employment.
- h. Public employment services must be enhanced and public-private partnerships promoted as key reform elements.

6- Conclusion

This study tried to examine if there is a relationship between employment and economic growth in the Libyan economy. Our analysis shows that there is no clear evidence of relationship between employment and economic growth. This because of many reasons includes: There is an assistance payments of LYD 500 that can be paid to one unemployed individual in each family. Public sector employment is also heavily affected by a phenomenon known as ‘welfare-employment, where salaries are paid to workers who show no presence or productivity in the workplace. The other evidence is that the amount of salary was increased last few years even though collapsed of economy.

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