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## Labor in Jordan

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### Overview of Current Economic Condition in Jordan

Jordan's economy today is radically different from that in the early 1990s. Changes in macroeconomic policies and structural reforms over the last decade have transformed Jordan from an inward-oriented, mostly state-controlled, and highly indebted economy into a more export-oriented one with the private sector playing an increasing role in economic development. However the Jordanian economy still suffers from a high external debt burden.

The year 2004 was a good year for the Jordanian economy, real GDP grew by about 7.5%; its highest growth rate since 1995. Population growth was 2.5% for the same year - suggesting an improvement in the per capita income. The analysis of major real sector indicators confirms a strong pick-up in activity during 2004. Foreign direct investment and exports, according to the Central Bank figures, soared by 46.2% and 39.3% respectively. However imports grew by 41.5% in 2004 compared with 2003 which resulted in a widening trade deficit. See table 6 in the annex.

Over the last four years (2000-2004) real GDP growth average 5.4% while population growth averaged 2.9% implying average per capita income growth of by 2.6%.

Unemployment remains within two digits and was estimated at 12.5% by the end of 2004. Inflation growth was moderate and estimated at 3.4%. Growth and stability were reflected in reducing the poverty rate, which went down from 21.3% in 1997 to 14.2% in 2002. One has to mention that there is a controversy regarding the actual poverty rate. Few skeptics refer to the fall in poverty to changes made in the adopted methodology rather than to the economic growth. Latest estimates for poverty level utilized volume of calories consumption instead of the level of income. Adopting this new methodology has brought down the number of poor people significantly. There no estimates to the poverty level on annual basis to explain the poverty trend over the period 1997 and 2002.

Over the last decade Jordan adopted several liberalization policies under the auspices of the IMF and the WB. In addition Jordan was acceded to the World Trade Organization (WTO) in April 2000, after agreeing to a package of trade and investment liberalization measures, as well as improvement in protections for foreign-intellectual property.

A privatization program which was launched in 1995 has been undertaken to reduce Jordanian government's involvement in the economy previously. The program aims at enhancing enterprise efficiency through the sale of shares to technically advanced strategic investors, deepening the financial market through public share offerings, and reducing subsidies and consolidating public finance. Several deals were completed and the proceeds of the program exceeded USD 1 billion by the end of 2004.

## **Employment Analysis**

Unemployment rates over the last three decades have been erratic, alternating between periods of very high number of unemployed, as in the 1990s, to periods of slow growth, such as those during the late 1970s and throughout most of the 1980s. Trends in labor force especially that concerning employment reflect economic and social changes. It reflects not only the underlying demographic trends in adult population, but also change in women's participation in the labor market, levels of participation in education, and labor mobility and migration.

The Participation Rate <sup>1</sup> was estimated at 38% as an average over the period 2000-2004. Table 1-B shows that this rate is decreasing in this period for both male and female. The participation rate for female is fairly low and estimated at 10 percent in 2004. This rate has not exceeded 13 percent over the last five years. The participation rate among males is high and averaged 65 percent over the period 2000-2004. The low level of female participation suggests that Jordan needs to advocate policies to encourage female participation especially that the lowest participation rate amongst female concentrated within the educated group as the unemployment figures indicate. Low participation of female is the

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<sup>1</sup>Participation rate is estimated as the number of labor force appropriated to the number of adults 15 and above.

result of high unemployment and does not indicate high participation rate in the informal sector.

Men's participation in labor force went down during the period 2000-2004. This was a direct result of rising enrollment rate in education, especially the intermediate colleges and universities and the inability of the labor market to absorb the new comers. The inability to absorb the new entrants attributes to the mismatch between the labor supply and demand more than to the high labor productivity. It seems that the achieved GDP growth over the last few years is originated in sectors that are not characterized by their labor intensity. Male participation fell from 66.1 % in 2000 to 63.7% in 2004. The overall effect of decreasing rate of participation in labor force for both men and women was that the over all labor force participation rate declined over the same period from 39.4% to 37.4%.

Unemployment with its economic and social implications is one of the most pressing problems facing Jordanian policy makers. The unemployment rate in Jordan fluctuated between 12.5% and 15.3% over the last five years (table 2), unemployment among male estimated slightly at lower rate than the national average, while for women it has been much higher and estimated at around 20% over the period 2000-2004.<sup>2</sup>

In 2004 the unemployment rate declined for males to 12.5%, compared with 13.7% in 2000. The female unemployment rate declined from 21% in 2000 to 16.5% in 2004.

The breakdown of unemployment by education level and sex (table 3) suggests that the lowest unemployment rate was found within the group of illiterate people for both genders. Illiterate people represent a small segment in the society and normally members of this group are not actively seeking to join the labor market. They might explain the low level of unemployment within this group especially amongst female who join and leave the labor market without being reported.

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<sup>2</sup>It should be mentioned that the actual figures for female unemployment is likely to be higher than official figures since many unemployed females are not registered as unemployed or actively seeking jobs.

However, one can observe a marked difference between males and females. For males, the highest rate of unemployment was registered among those who possess qualification less than the secondary school. This group normally joins vocational training centers and spends a year or two apparently without being adequately qualified. This group aged between 18-23 and considered to be socially vulnerable. Male unemployment is quite similar for the rest of the groups.

Unemployment among female provides a rather different story. The highest level of unemployment was registered among females who possessed high school diplomas or Bachelor's degrees and above, reaching 19% and 18% respectively, as table 3 indicates. Figures for females suggest that the rate of unemployment amongst female is higher than the officially registered rate because there are many who could be classified as "discouraged labor" or not active in joining the labor market.

## Poverty

Table 7 demonstrates that poverty in Jordan declined significantly between 1997 and 2002, from 21.3% to 14.2%, again, keep in mind the caveats mentioned earlier about the adopted methodology.

The Gini index (table 10) has slightly decreased from 37.86 percent points in 1997 to 37.60 percent points. This decrease is trivial and statistically insignificant. Looking at the quintile<sup>3</sup> share (table 10), we can observe that the consumption shares of the first, second and fifth quintiles have been marginally declined whereas the consumption shares of the third and fourth quintiles increased. The share of the fourth quintile has increased the most. Since the changes in the Gini index and the shares of quintiles are so small, it is difficult to infer that the inequality has worsened in Jordan between 1997 and 2002. Yet the richest two groups in Jordan consume nearly 56 percent of the total consumption in Jordan.<sup>4</sup>

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<sup>3</sup>Quintile represents categories by income group whereas the top group represents the richest 20 percent of the population and so forth for the rest of the groups.

<sup>4</sup>The Department of statistics is currently preparing figures for 2004.

## **Real wages**

Real wages as table 8 exhibits increased by 2.3% in 2001 and 3.2% in 2002 and declined by 0.9% in 2003. This decrease emanated primarily from the private sector squeezing its real wage, wherein pay raises were less than the level of inflation. The average real wage was estimated at JDs 237 by the end of 2003. It is worth noting that average wages in the public sector was found to be higher than that for the private sector. This explains why many low skilled employees preferred to work at the public sector, especially as it provides job security and other benefits that are difficult to obtain from the private sector. In addition, the seemingly low wage in the private sector masks huge wage disparity between the highest paid jobs and the lowest ones.

## **Unionization**

Workers in Jordan have the right to establish and join unions. However not many are practicing that right. Table 9 shows that only around 30% of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. But labor unions are still weak in bargaining with employer, and do not represent the interest of their workers in all sectors. This state of affairs contributes to weaken the desired roles that could be played by trade unions and the merits of unionization. Indeed this is reflected in the stagnant number of unionized workers which hasn't changed since 1999.