ECONOMIC RESEARCH FORUM

منتدى البحوث الاقتصادية

working paper series

THE IMPACT OF THE PALESTINIAN LABOR LAW OF 2000 ON YOUTH EMPLOYMENT

Edward Sayre, Yousef Daoud
and Mary Kraetsch

THE IMPACT OF THE PALESTINIAN LABOR LAW
OF 2000 ON YOUTH EMPLOYMENT

Edward Sayre, Yousef Daoud and Mary Kraetsch

Working Paper 574

December 2010

Send correspondence to:
Edward Sayre
University of Southern Mississippi
edward.sayre@usm.edu

First published in 2010 by
The Economic Research Forum (ERF)
7 Boulos Hanna Street
Dokki, Cairo
Egypt
www.erf.org.eg

Abstract

Unemployment protection legislation is often created in a way that benefits workers who already have jobs and harms those who are new entrants to the labor force. Youth in the Palestinian Territories, as with youth across the Middle East, experience school to work transitions that have become increasingly prolonged. While some of the increasing delay certainly has its roots in the macroeconomic and political uncertainties that have plagued the Palestinian Territories, some may be due to the introduction of a new Palestinian Labor Law. This paper attempts to determine the impact of the Palestinian Labor Law of 2000 on the unemployment duration for Palestinian youth. Our analysis finds a relationship between the introduction of the law and longer unemployment duration among youth.

ملخص

غالبا ما توضع تشريعات الحماية ضد البطالة بطريقة تفيد العاملين الذين لديهم وظائف بالفعل في حين تضر بهؤلاء الذين هم حديثي الانضمام الي القوة العاملة. الشباب في الاراضي الفلسطينية، مثلهم في ذلك مثل الشباب علي مستوى الشرق الاوسط، يمرون بفترة الدراسة ثم الي رحلة البحث عن عمل التي تزداد مدتها بشكل مطرد . و بننما نجد أن بعض التأخير المتزايد بالتأكيد له اسبابه المتمثلة في عدم استقرار الاقتصاد الكلي و عدم الاستقرار السياسي الذي حل بالاراضي الفلسطينية، فإن البعض الاخر ربما يكون بسبب وضع قانون عمل فلسطيني جديد. تحاول هذه الورقة أن تحدد تأثيرات قانون العمل الفلسطيني الصادر عام 2000 علي استمرار البطالة بين الشباب الفلسطيني. وجدت تحليلاتنا علاقة بين صدور القانون و استمرار البطالة لفترة اطول بين الشباب الفلسطيني.

1. Introduction

Youth in the Middle East experience school to work transitions that have become increasingly prolonged. The median waiting time for recent graduates in the West Bank and Gaza is two years, and nearly one quarter still do not have jobs five years after finishing university (see Sayre and Al-Botmeh, 2009a and 2009b). These long waiting times for entry into the labor market contribute to the period of "waithood" that many youth in the Middle East face during their transition to adulthood.

This chapter investigates the effect of the Palestinian Labor Law of 2000 on unemployment duration for Palestinian youth. The 2000 Palestinian Labor Law increased the severance payment to older workers, especially in the West Bank, and in doing so has also increased the cost of dismissing workers substantially. This makes firms less likely to bring on new workers because the cost of eventually dismissing them is so high. Our analysis finds a relationship between the introduction of the 2000 Palestinian Labor Law and longer unemployment duration among youth.

The first section of this paper describes the Palestinian labor market and provides an analysis of unemployment duration among Palestinian youth. The second section provides a theoretical overview and literature review on the potential effects of rigid labor laws on unemployment among youth. This section also provides a description of the specific clauses of the 2000 Palestinian Labor Law and the coverage rates of the law in different sectors of the economy. The third section identifies a correlation between the coverage rates of the law in different sectors of the economy and unemployment duration and uses a 'difference in difference' approach to determine the effects of the labor law on unemployment and unemployment duration among Palestinian youth. The last section concludes with some policy implications and areas for further research.

2. Overview of the Palestinian Labor Market and Unemployment Duration for Palestinian Youth

The Palestinian labor market has been marked by three distinct phases since the beginning of the Israeli occupation. During the first phase, beginning in 1967, the main outlet for young Palestinians that were not able to find employment in the West Bank and Gaza Strip was to travel to the Gulf region for jobs, which were plentiful for skilled workers at the time due to the increase in oil production in the Gulf States in the 1960s.

In the 1980s, employment opportunities for Palestinians in the Gulf countries began to decline, and many migrants returned to the West Bank and Gaza Strip. At the same time, the Israeli economy began to recover from the harsh economic downturn of the 1970s and the Israeli economy and the West Bank and Gaza became increasingly integrated as the Israeli economy began to depend upon Palestinians to fill jobs, especially in manufacturing, construction and agriculture. In the mid-1980s, as many as one-third of Palestinian wage workers—approximately 130,000 Palestinians—were employed in Israel or in Israeli settlements in the West Bank and Gaza Strip.

Today, the economic environment for Palestinians has shifted again due to the start of the Al-Aqsa *Intifada*. Despite a doubling of the Palestinian labor force, fewer than 50,000 Palestinians currently work in Israel. Industrial zones in Gaza have been closed and land seizures for the expansion of Israeli settlements, bypass roads, and the new security barrier in the West Bank have limited economic activity. Political violence has stymied efforts to expand the tourism industry that could produce new jobs. Instead, the only sector in the West Bank and Gaza Strip that continues to grow is the public sector, which is funded by outside aid to the Palestinian Authority (PA). The higher salaries earned in the public sector also put upward pressure on reservation wages for recent graduates, leading to longer periods spent waiting for a first job after graduation. The impact of the Al-Aqsa intifada and the continued

political and economic upheaval has resulted in a high overall unemployment, but especially a high unemployment for youth (Figure 1).

In addition to high unemployment rates, youth also experience a relatively long unemployment duration. Based on 'survival' functions for Palestinian youth unemployment for the years 1998–2008, the median duration for youth unemployment is approximately one year (Figure 2).[1] Figure 2 shows how unemployment duration differs by age: youth that are a bit older (20–24 and 25–29) suffer from a slightly higher probability of still looking for a job after one year of looking.

The survival functions in Figure 3 illustrate how unemployment duration among youth has changed over time between 1999 and 2008. The three time periods in the figure are: the Al-Aqsa pre-intifada period (1998–2000); the peak of the intifada (2001–2004); and the late intifada and post-intifada period (2005–2008). As shown in Figure 3, unemployment duration was generally shorter for youth during the pre-intifada period than the following periods during the intifada. Prior to the intifada, two-thirds of unemployed youth found jobs within a year. However, after 2000, no more than one-half were able to find jobs within one year. While most of this increase in unemployment duration is undoubtedly due to the restrictions on Palestinians working in Israel during this time, it is worth noting that the Palestinian Labor Law was first unveiled during the 2001–2004 period. Below, we will describe the new Palestinian Labor Law and show how it is possible to separate the effects of the new law from the effects of the intifada on unemployment duration.

2. The Impact of Job Security Regulations on Unemployment Duration

Labor market regulations, especially in the form of job security regulations, are designed to protect workers against changing economic conditions. However, these types of labor market regulations are widely considered to affect the duration of unemployment, especially for youth and new labor market entrants.

A number of cross-country studies have found that stricter regulations generally increase levels of unemployment in both developed and developing countries. In particular, strict labor regulations and rigid employment laws, especially tight hiring and firing rules, increase levels of unemployment, particularly among two demographic groups that usually have above-average unemployment rates: young people and women (Feldmann, 2009, Botero, et al. 2004). In the Middle East context, Assaad (2009) studied the effects of Egypt's 2003 labor law, which increased the flexibility of formal employment relations. He found the new labor law to be associated with an increase of formal private sector employment. However, research on this subject in Middle Eastern labor markets is limited, and there is little evidence of how employment regulations or the reforms of these regulations impact young workers in the region.

There are three primary ways that employment regulations can lead to longer unemployment duration and more time spent finding a first job for young workers.

First, employment regulations that require employers to provide mandated benefits (or nonwage compensation), such as maternity leave, vacation or holiday pay, or sick leave, raise the costs of employing workers, and especially increase the costs of hiring additional workers. In effect, benefits which impose additional costs act as a tax on labor for firms (Boeri, et al., 2008). These mandated costs for employers can make firms less likely to hire additional workers, effectively reducing employment opportunities by reducing demand for

---

[1] The survival functions for Palestinian youth unemployment were calculated using the Palestinian Central Bureau of Statistics Labor Force Survey data. In figures 2 and 3, the y-axis indicates the proportion of workers who are still available for work and looking for work and the x-axis indicates the number of months that they have been available for work.

labor. The effect of these types of mandated benefits on employment varies by country (Freeman, 2010).

Second, employment regulations that protect the jobs of current workers (by requiring severance pay or approval for dismissal by labor courts or work councils) lead to higher firing costs for employers/firms. A number of studies on employment protection regulations in Latin America have found that job security provisions increase the costs of dismissals and have an adverse effect on total employment (Heckman and Pages, 2004). By increasing the costs of firing, these regulations also increase the costs of hiring because firms have to consider all workers as lifetime employees. This biases firms in favor of incumbent and older, experienced workers to the disadvantage of new entrants and younger, relatively less experienced workers (Freeman, 2010).

Third, employment regulations that provide mandated benefits and job security make working in the formal sector more attractive, and thus encourage more people to enter the labor market, adding to the number of people seeking jobs and increasing unemployment duration for job seekers. In effect, these types of regulations increase the demand for jobs while not creating an accompanying increase in the supply of jobs. When the coverage of employment regulations is not uniform and varies by sector of employment, demand for jobs increases in sectors with higher coverage rates. If workers become more attracted to a particular sector that has higher coverage rates, such as the public sector, then preference for employment in that sector will be higher and the queue for jobs in that sector will become longer.

2.1 The Labor Law in the Palestinian Territories

2.1.1 Palestinian Labor Law of 2000

In the late 1990s, the Palestinian Authority initiated a series of reforms designed to unify the disparate legal systems that existed in the West Bank and Gaza Strip and create a set of basic laws that would lay the foundation for a modern legal infrastructure for the Palestinian State. Prior to this time, the West Bank operated under the Jordanian law and the Gaza Strip operated under the Egyptian law. These reforms in the late 1990s included the Palestinian Basic Labor Law of 2000, which replaced the Jordanian Labor Law of 1960 and the Egyptian Labor Law of 1964 and produced a labor law that was in line with existing laws found throughout the region. The development and implementation of this new Palestinian law, however, occurred as the Al-Aqsa Intifada began. Thus, the measurement of the impact of this new law on the labor market is confounded with measuring the impact of the political uprising.

Some of the regulations contained within the law include: mandated end of service award, available to all employees (details in box 1); workweek of 45 hours that would be reduced by one hour per day for jobs classified as hazardous; 12 hour maximum overtime with an overtime premium of time and a half; two weeks mandatory paid leave; and fourteen days of sick leave at full pay with another fourteen days at half pay.

In addition, the employment protection and security provisions of the 2000 law are more restrictive for employers compared to the prior laws and increase their firing costs. Specifically, the 1960 Jordanian law in the West Bank stipulated a severance payment of half a month of pay for each year of service. In Gaza, the 1964 Egyptian law stipulated half a month of pay for each year of the first five years of service. The 2000 law calls for one month of pay for each year, effectively doubling the severance payment for long time workers. Thus, because the new law creates a stronger system of employment protection and consequently represents an increase in the cost of firing workers, it could lead to longer wait times for the reasons described above.

However, it is also worth noting that, especially for workers in the West Bank, the law decreased the cost of having temporary employees that work only for short periods. First, the new law allows for a three-month trial period during which the employer does not need to offer a formal contract. Furthermore, while the 1960 Jordanian law included a formula to determine a fraction of the severance payment for workers who were employed less than 12 months, the new Palestinian law provides for no severance payment for employees who have worked less than a full calendar year.

2.1.2 Coverage of the Palestinian Labor Law

Coverage of the benefits and regulations codified in the basic labor law is not universal. Data from the 2004 Work Conditions Survey provides an indication of overall coverage rates of the law. This survey asked an extensive set of questions about working conditions, including exposure to hazardous working conditions. The survey also included a set of questions about different types of employment benefits available to workers at their jobs, some of which are mandated by the Palestinian Labor Law of 2000.

Figure 4 shows the percentage of workers that receive three benefits (paid annual vacation, paid sick leave, and one day off per week) across different employment sectors (agriculture, manufacturing, construction, commerce, transportation, and services). This figure highlights three benefits in particular which are explicitly mentioned in the Palestinian Labor Law: annual paid leave, paid sick leave, and at least one rest day per week.

As Figure 4 shows, while most workers (outside of the agricultural sector), receive at least one day off per week, other benefits (paid annual vacation and paid sick leave) show much more variation even though both of these types of leave are mandatory under the Palestinian labor law. Specifically, less than 10 percent of agricultural and construction workers receive annual vacation leave. Less than 30 percent of manufacturing workers and less than 10 percent of construction workers receive paid sick leave.

This data provides an indication of overall coverage rates of the law, which allows us to analyze the distribution of various benefits to Palestinian workers by sector. Whether or not an employer abides by certain aspects of labor legislation (for example paying in to social security) can serve as a good proxy for whether or not the employer abides by other regulations in the labor law, such as employment security regulations (Kugler, 2004). Thus, although the survey does not give specific information about employment protection legislation found in the Palestinian labor law, the data gives an indication of the overall coverage rates by looking at other mandated benefits. Since sick leave and annual leave are most closely related to a general package of social benefits, we will use coverage by those articles as proxies for overall coverage of the law, including employment protection regulations. According to this approach, the construction and agricultural sectors have the lowest coverage rates, while the service sector has the highest coverage rate.

3. Employment Transitions for Palestinian Youth

Given the potential for employment regulations to lead to longer unemployment, what is the relationship between coverage of the labor law and the wait time for employment in the West Bank and Gaza Strip, especially among young workers? There are several ways by which we will examine the impact of the Palestinian labor law.

First, we look explicitly at the role of the public sector in lengthening the period of job search by Palestinian youth. One reason why generous employment protection can lead to longer wait times is because of the increased desirability and preference for these jobs, compared to jobs with lowers levels of employment protection. Because public sector jobs contain many benefits that other jobs do not (complete coverage by the employment law is only one of

them), there may be higher demand and more queuing for these jobs, which in turn creates a longer unemployment duration.

Figure 5 presents survival functions for young Palestinian men (very few women work outside the public sector) who eventually ended up working in public sector jobs and formal private sector jobs (excluding workers who were formally employed or who worked as unpaid family members). Those workers who eventually found private sector jobs spent less time unemployed than did those workers who ended up in public sector jobs. The overall significance of the difference between the two sectors is fairly dramatic, with the probability of finding a public sector job less than finding a job in the private sector. While only 42 percent of public sector workers found a job within a year, 63 percent of private sector workers had found jobs prior to that time.

3.1 Private Sector Unemployment Duration

Next, we analyze employment duration within the private sector. Another reason why employment protection can lead to longer unemployment duration is because private sector firms are reluctant to hire new employees due to the added costs of hiring and firing employees. To determine the relationship between the labor law and unemployment duration in the private sector, we look at unemployment duration for youth by sector. According to private sector survival functions by sector represented in figure 6, the private service sector, which has the highest coverage rates, also contains the characteristic of much longer unemployment duration than the private construction and manufacturing sectors.

Finally, we assess the degree to which the implementation of the Palestinian labor law of 2000 has led to longer waits in the private sectors with the highest coverage rates. This is necessary in order to isolate the effect of the introduction of the labor law from the effects of the Al-Aqsa Intifada. The best way to tackle this question is to conduct a 'difference in difference' analysis and treat the policy intervention (implementation of the labor law) as a 'natural experiment', following the approach used by Kugler (2004). Since the policy will only affect groups in the sectors that abide to the law (the 'covered' sectors), we can examine the effect of a labor force shock in both the 'covered' and 'uncovered' sectors. Using a multivariate hazard model of unemployment duration, we estimate that the impact of the 2000 labor law was to decrease the probability that Palestinian youth find jobs. While the overall probability of ending an unemployment spell decreased due to the intifada, the probability of ending a spell for young Palestinians in the sectors more likely to be covered by the labor law (manufacturing and services) decreased more than those less covered by the law (agriculture and construction). This finding from the multivariate model is confirmed in figure 7, which shows the mean unemployment duration for Palestinian youth from 1998 to 2008. Unemployment duration increased for all workers beginning in 2001, but in the uncovered sector the rate it decreased after 2003. For the covered sector workers, unemployment duration increased more during the intifada and continued to increase even after its worst effects had ended.

3.2 Regression Results

Table 1 presents regression results from a Cox proportional hazard model, where the dependent variable is the transition from the state of unemployment to that of employment. While the hazard model generally creates a hazard function, the results in this table have been converted into delta probabilities. In other words, the negative change in coefficients implies that the probability for an individual with that characteristic (for example being in the 15-19 year old age group) to transition to employment is less likely in comparison with the excluded category (25-29 year olds). The columns in table 1 represent different subsamples over the entire 10-year time period: the full sample, males only, females only, West Bank

males and Gaza males. The subsequent tables will examine each of these different sample groups over different time periods.

Educational status appears to positively affect the ability to move into employment for Palestinian youth. Youth with the lowest three levels of schooling (less than 12 years, 12 years and 13 to 15 years) have a lower chance of moving out of unemployment than do individuals with 16 or more years of schooling. This result does not seem to depend on the sample as both males and females exhibit this same trait. Those with the lowest level of schooling have the slowest time recovering from unemployment; however, it is not universally true that those with 13-15 years of schooling remove themselves from unemployment more quickly than those with only 12 years of schooling.

Younger age groups, those aged 15 to 19 and those aged 20 to 24 tend to emerge from unemployment more quickly than do those aged 25 to 29. Males in the youngest age group are 20 to 30 percent more likely to become employed than males in the oldest (25-29) age group at any time. The youngest females, on the other hand, are even more likely to become employed, as they are 80 percent more likely to emerge out of unemployment. The next oldest age group (20-24) is also more likely to come out of unemployment, as they become employed at a rate of about 10 percent more rapidly than the oldest age group. Marriage tends to negatively affect the likelihood to emerge from unemployment for some males, while it does not have an effect on females. Additionally, females are somewhat less likely to emerge from unemployment than males.

More pertinent to the specific research question in this paper, one can also notice a different due to occupational and industry groups. Specifically, all coefficients of these industry groups are reported relative to those workers in agriculture, so they are relative probabilities compared to agriculture. Only one group shows as being more likely to emerge from unemployment, and that includes workers that are employed in construction. For workers employed in commerce and those employed in transportation, most demographic groups report being slightly less likely to emerge from unemployment. The service sector, however, stands out as being much less likely to emerge out of unemployment than agriculture, and also all other groups. The coefficients reported in table 1 indicate that these workers are one and a half to two times less likely to emerge from unemployment than agricultural workers, when everything else is held constant, thus confirming the information contained in the descriptive statistics above.

As for occupational differences, the comparison group includes basic (unskilled) occupations. Most occupations have a higher probability of emerging from unemployment than do workers in unskilled occupations. The one exception includes the group of skilled agricultural workers who are less likely to emerge from unemployment.

Table 2 presents results from a hazard model of unemployment duration (where the hazard is leaving unemployment) only for men in our sample. The sample is then broken into five different time periods in order to see if the implementation of the Palestinian Labor Law of 2002 had a noticeable difference in terms of the relative degree of wait time associated with jobs that had better coverage by the law. Since our information on coverage rates comes from 2004, we can assume that there was a degree of implementation and that those industries, which are more likely covered, should have seen a more dramatic difference after the law than before. Thus, our hypothesis is that the coefficient on the service sector should become greater in magnitude and stay negative throughout this time.

As for age and education effects, the results presented in Table 2 show that those with less education (not in the excluded group of 16+ years of schooling) had a lower probability of escaping unemployment than those in the highest level of schooling group. There is an interesting pattern over time for these schooling impacts. While in the earlier period—before

the intifada—the 13-15 years of schooling group had the lowest probability of finding work and transitioning to employment. After the advent of the intifada (the following four time periods) we find that those with the least schooling had the slowest transition and those with the gradual stepping up in schooling improved their chance of escaping unemployment. The oldest age group still had the slowest transition out of unemployment, but only in the post 2002 period did the 20-24 year old age group have a statistically significant better chance of escaping unemployment. In both the 1999-2000 and the 2001-2002 periods, the estimated effect on the hazard of being in this group was positive, but not statistically significant.

In terms of industry-based differences, we find that again construction is the only group that has a statistically significant improved chance of escaping from unemployment when compared to agriculture (the excluded category). This effect is only found to be statistically significant in the later periods (post 2002). Likewise, the negative impact of being in the commerce industry was found to be more concentrated in the earlier periods, where two of the first three periods had negative and significant effects from being in commerce, compared to agriculture. As for the services sector, the impact is uniformly negative, again implying that the rate of escaping unemployment in the services sector is around one and a half to two times as slow as the rate of employment in the agricultural sector.

Occupational differences in removing oneself from unemployment also matters. Professional occupations tend to find jobs more quickly than the unskilled excluded category. On the other hand, skilled agricultural workers tend to escape unemployment more slowly. Shop and craft workers also tend to escape unemployment more quickly than unskilled workers, but there is no definite pattern over time that might be related to the implementation of the labor law. And finally, being located in Gaza has a peculiar effect, in that it increases the probability of escaping unemployment early in the period while it decreases probability of escaping unemployment later in the period. This is undoubtedly linked to the different economic and political fortunes faced by Gazans after the intifada and the separation from the Israeli economy that had begun to occur.

Table 3 presents results for the Cox proportional hazard model for women from 1999 to 2008 by two year increments in columns 1-5. Similar to table 2, one can interpret the changes over time to detect patterns of recovering from a period of unemployment due not only to the changes in the macro economy, but also due to changes in implementation of the labor law. Of the demographic characteristics, one can first note that the differences in employment attainment due to education follow a similar pattern as that for men in table 2. Those with less schooling have generally a lower probability of recovering from unemployment compared to those in the omitted category (16 or more years of schooling). The one pattern that does vary is that in certain years the intermediate schooling groups (12 years) has a higher or lower probability of recovering from unemployment than does the least educated group. However, the difference between these groups is not statistically significant. Thus, the only clear evidence is that women with more schooling have shorter unemployment duration, when everything else held constant.

Among different age groups of youth, as was the case for men, females in the oldest age group (25-29) have the longest unemployment duration. In this case there are also significant differences between all of the age groups. Specifically, the youngest age group (15-19) is the most likely to emerge from unemployment followed by the 20-24 year old group. This is true for all year groups included in the sample. One important change over time is that the relative rapidity with which the youngest group leaves unemployment compared to the oldest group is much more pronounced in the years following the peak of the intifada than it was during the intifada years. In these years the youngest group returned to employment more than twice as fast as did the oldest group.

Among other demographic differences marriage also often tends to have an effect on the rapidity with which women leave unemployment. The general finding is that married women are less likely to leave unemployment than single women since they are often secondary workers in the household. The evidence presented in table 3, however, shows that in the years with the strongest labor market 1999-2000, married women were more likely to leave unemployment than single women, but this finding does not hold for the rest of the years in the sample.

The impact of industry of work for women on the hazard of being removed from unemployment is consistent with the previous evidence in table 2 for men, with a couple of caveats. First, the consistency lies in that the industries with the highest coverage rates, namely services, commerce and transportation have the longest unemployment duration. One difference, however, is that unemployment duration for service sector workers is not significantly longer than the duration for commerce and transportation. In fact, the point estimate for the industry impact is larger in magnitude for commerce and transportation than for services, though the size of the difference is not statistically significant. Additionally, the evidence for the longer unemployment duration for these three industries is only found in the last six years of the sample period.

The impact of occupation is similar for women as it is for men. Specifically, professionals and shop workers are more likely to emerge from unemployment into employment when compared to unskilled workers. Additionally, skilled agricultural workers are less likely to emerge from unemployment when compared to unskilled workers. The pattern for all of these differences is generally more noticeable (more statistically significant) later in the period than earlier. Finally, the impact of being a resident of Gaza changes over time. Early in the period women from Gaza emerged from unemployment more quickly.

Table 4 presents results from Cox proportional hazard models of unemployment duration for West Bank men from 1999-2008 where each of the columns contains a different two year band. The first demographic difference to notice is that, as was the case with the other samples, the most educated age group had the greatest likelihood of leaving unemployment compared to less educated groups. Only in a few select sub periods was the difference between the intermediate schooling levels in terms of their unemployment duration (for example the difference between 12 years of schooling and 13-15 years) statistically significant and always in the pattern that the more educated had shorter durations.

Age differences in unemployment favor younger workers finding jobs more quickly to older workers. The 25-29 age group has the longest duration while the 15-19 year old group has the shortest duration. The difference between 20-24 year olds is not significantly different from the 25-29 year olds except for the period just after the peak of the intifada (2003-2006). These differences are unlikely to reflect differences due to the implementation of the labor law, though the timing is roughly correspondent to the time of its implementation.

The pattern of unemployment differentials due to industry group is similar to patterns shown in tables 1-3. Specifically, the service sector has the longest unemployment duration, especially in comparison to the omitted industry (agriculture). The industry with significantly shorter durations than agriculture is construction, but these differences are only statistically significant after the peak of the intifada. The most important finding is that although the labor market was relatively strong in 1999-2000 and at the end of the period, the pattern of unemployment duration does appear to differ in that less protected industries only had significantly shorter unemployment duration after the implementation of the labor law.

Table 5 presents the same results for Gaza. Since the Gaza Strip had a different economic trajectory due to the separation and additional mobility restrictions, it is important to separate

the effects seen in Gaza from those seen in the West Bank, especially later in the period. Less educated Gaza men, like other demographic groups, had a lesser chance of recovering from unemployment, compared to more educated groups. This tendency is more clearly seen for the least educated groups, as young men with less than 12 years of schooling had a significantly lower probability of escaping from unemployment compared with the omitted group, those with 16 or more years of schooling. The groups with the second highest level of education, however, those with 13-15 years of schooling did not have significantly slower recoveries to employment compared to those with 16 or more years of schooling for the first two sub periods (1999-2000 and 2001-2002). After the new labor law took effect, however, in 2002, there was a significant difference between these two groups' unemployment duration.

Younger men had significantly shorter unemployment duration than did older men. The 15-19 year olds had significantly quicker transitions to employment than did the 25-29 year old group. The 20-24 year old group did not have a significantly shorter duration except for the period during which the labor law had taken effect (2003-2008). The effects of marriage do not appear for young men in Gaza as there is no statistically significant difference in unemployment duration for married and unmarried men.

Industry of eventual work also has a relatively muted effect. For those in the services sector, they have a statistically significantly longer unemployment duration compared with agriculture (the excluded category). Unlike other demographic groups, for Gaza men, the difference between the services sector and all other sectors is statistically significant, while there are no clear patterns for other sectors with high coverage rates such as commerce and transportation.

Occupation has a significant effect on unemployment duration. Professional occupations have shorter durations and thus, they are likely to escape unemployment more quickly, when compared to unskilled workers (the omitted category). Likewise, skilled agricultural workers have longer durations than unskilled workers. Like many of the effects for Gaza men, these effects are more pronounced after the implementation of the labor law in 2002, implying that the effect of the law may have been more significant for Gaza men than for other demographic groups.

4. Policy Implications and Conclusions

This brief has examined the history of the Palestinian Labor Law of 2000 and its implications on the employment of Palestinian youth. The implementation of this new law could have either raised or lowered costs of employing young workers for Palestinian firms. By unifying the laws between the West Bank and Gaza Strip, it clarified and simplified the regulatory framework surrounding employment and therefore, would have encouraged Palestinian firms to expand employment. On the other hand, this law expanded the mandated benefits given to Palestinian workers in terms of mandatory vacations and rest periods. Furthermore, it could have encouraged more firms to fully adopt the regulations due to their recognition and sanctioning by the Palestinian Authority.

This paper finds that those sectors of employment with greater coverage by the employment law did see workers experience longer unemployment duration than sectors with lower coverage. After the law was implemented, overall duration times increased for those in covered sectors relative to those in sectors that had less coverage.

Ultimately, however, each country in the Middle East needs to carefully assess the impact that its regulatory framework, including labor laws, have on the youth of the region. While some regulations may seek to protect workers, governments need to be aware of potential unintended consequences, even in the case when the groups that the laws are meant to protect

end up being negatively impacted. The area of job security regulations is one such area where laws that are meant to protect workers could hurt workers, especially young workers, by decreasing the willingness of firms to make positions available to new workers.

References

Assaad, Ragui. 2009. *Egypt's Labor Market Revisited*. Cairo: The American University in Cairo Press.

Boeri, Tito, Brooke Helppie, and Mario Macis. 2008. "Labor Regulations in Developing Countries: A Review of the Evidence and Directions for Future Research." SP Discussion Paper No. 0833. Washington, D.C.: World Bank.

Botero, Juan, Simeon Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2004. "The Regulation of Labor." *Quarterly Journal of Economics* 119 (3): 1339–1382.

Djankov, Simeon and Rita Ramalho. 2009. "Employment Laws in Developing Countries." *Journal of Comparative Economics* 37: 3–13.

Feldmann, Horst. 2009. "The Unemployment Effects of Labor Regulation Around the World." *Journal of Comparative Economics* 37(1): 76–90.

Freeman, Richard. 2010. "Labor Regulations, Unions, and Social Protection in Developing Countries: Market Distortions or Efficient Institutions?" *Handbook of Development Economics*, Volume 5.

Heckman, James and Carmen Pages. 2000. "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets." NBER Working Paper No. W7773.

Kugler, Adriana. 2004. "The Effect of Job Security Regulations on Labor Market Flexibility: Evidence from the Columbian Labor Market Reform." In *Law and Employment: Lessons from Latin America and the Caribbean*, edited by James Heckman and Carmen Pages. Chicago: University of Chicago Press.

Montenegro, Claudio and Carmen Pages. 2004. "Who Benefits from Labor Market Regulations? Chile, 1968–1988." In *Law and Employment: Lessons from Latin America and the Caribbean*, edited by James Heckman and Carmen Pages. Chicago: University of Chicago Press.

Sayre, Edward and Samia Al-Botmeh. 2009. "In Search of a Future: The Struggle of Young Palestinians." In *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*, edited by Navtej Dhillon and Tarik Yousef. Washington, DC: Brookings Institute Press.

Sayre, Edward and Samia Al-Botmeh. 2009. "Youth Exclusion in the West Bank and Gaza Strip: The Impact of Social, Economic, and Political Forces." Middle East Youth Initiative Working Paper 10. *Wolfensohn Center for Development at Brookings and the Dubai School of Government*.

See www.shababinclusion.org/content/document/detail/1525/.

Box 1. Employment Protection Provisions of the Palestinian Labor Law of 2000

Article (42)

1- The employee has the right to resign from his position while maintaining his full legal rights including the end of service award after informing the employer in the presence of the following conditions:

a-   Placing the employee in a job that is clearly different in its kind and degree from the job that was agreed upon in the work contract unless such placement is necessary to prevent catastrophe and for a short period of time

b-   Employing the worker in a way that requires him to change his living place

c-   Medical proof issued by the medical committee which states that the continuation of the employee's work places danger on his life

d-   Physical or verbal assault toward the employee during working hours by the employer or anyone who represents him

e-   The failure of the employer to fulfill his obligations toward the employee after written request by the employee

2- Except what is indicated in item (1) above, if resigned from his work during the first 5 years, the employee has the right to one third of the end of service award, two thirds of the end of service award if he resigns during the second five years of service, and the full end of service award if he spends ten years or more at work.

Article (45)

The employee who spent a year at work has the right to the end of service award, which equals one full month of average last monthly pay for each year he has served without factoring the overtime hours spent.

Article (47)

While preserving all his other legal rights, and if dismissed from work without a legitimate reason, the employee deserves compensation worth two months of regular pay for each year he served at work but the total compensation shall not exceed two years of his regular pay.

Figure 1A: Unemployment Rates for Palestinian Male Youth, 1998-2008
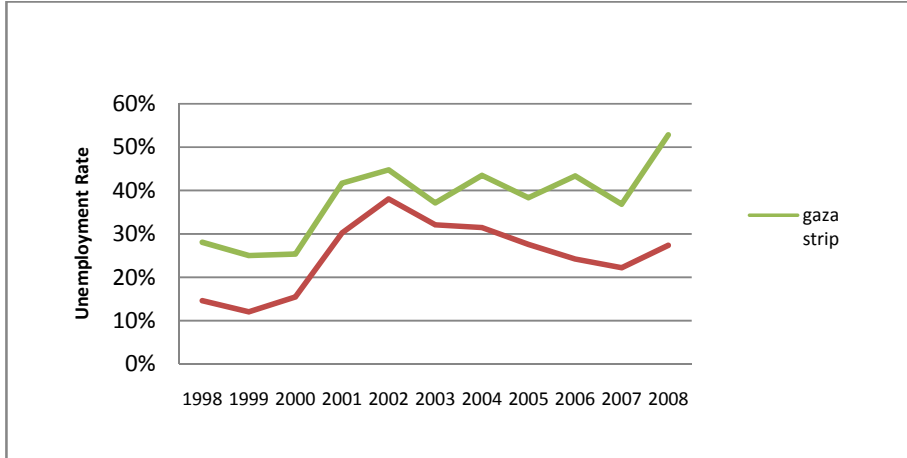
Figure 1B: Unemployment Rates for Palestinian Female Youth, 1998-2008
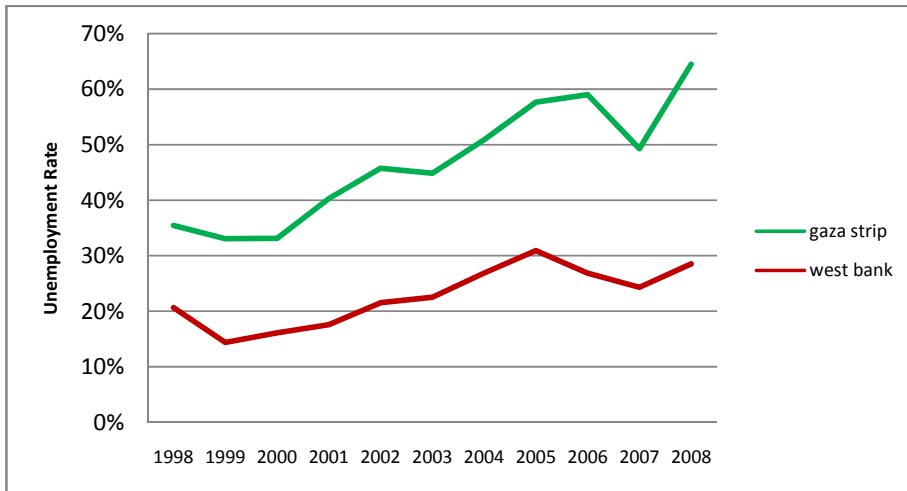
Figure 2: Unemployment Duration Survival Functions for Palestinian Youth, 1998-2008
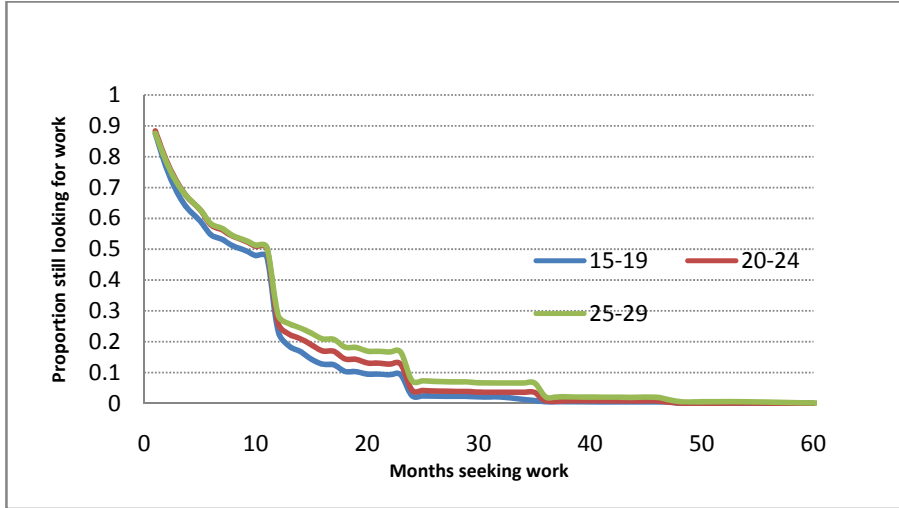
Figure 3: Unemployment Survival Functions by Year
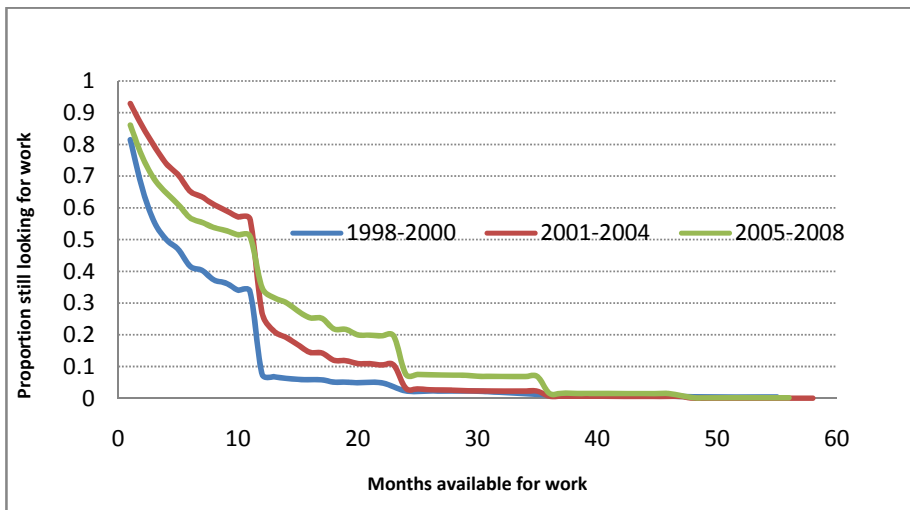
Figure 4: Percentage of Workers Receiving Mandated Benefits by Industry
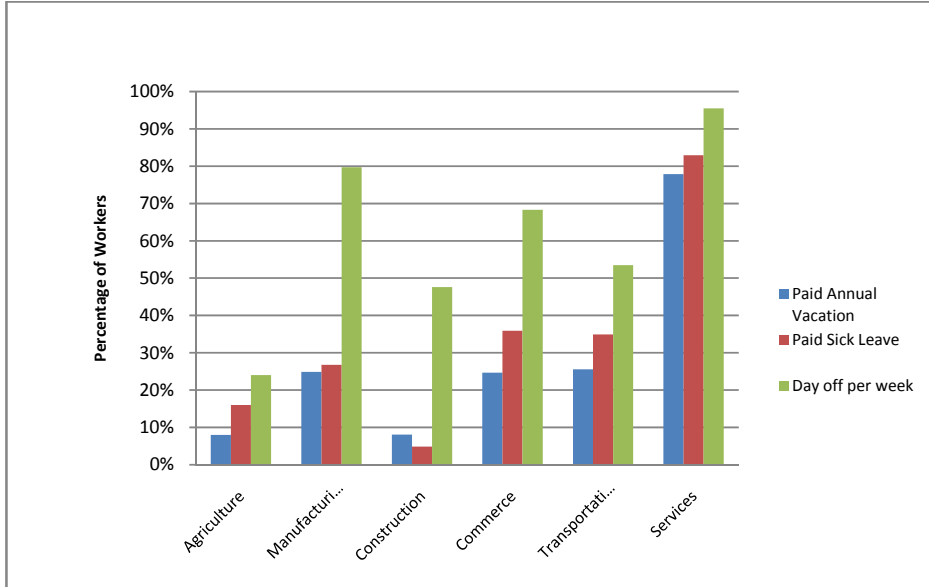
Figure 5: Survival Functions for Public and Private Sector Jobs

Figure 6: Unemployment Duration Survival Functions by Industry --Private Sector Only

Figure 7: Unemployment Duration over Time by Employment Law Coverage

Table 1: Cox Proportional Hazard Model for the Probability of Becoming Employed for All Years 1999–2008

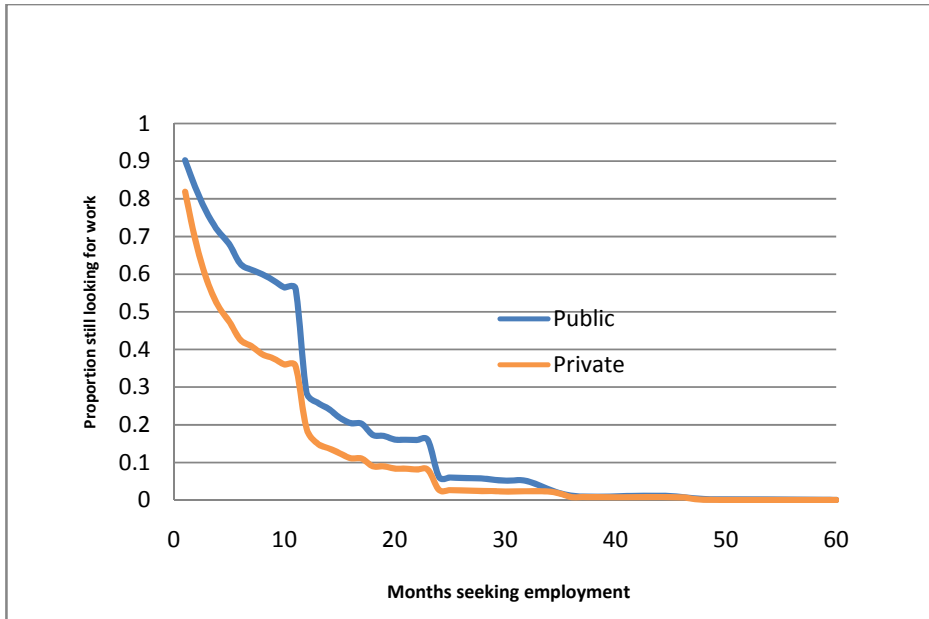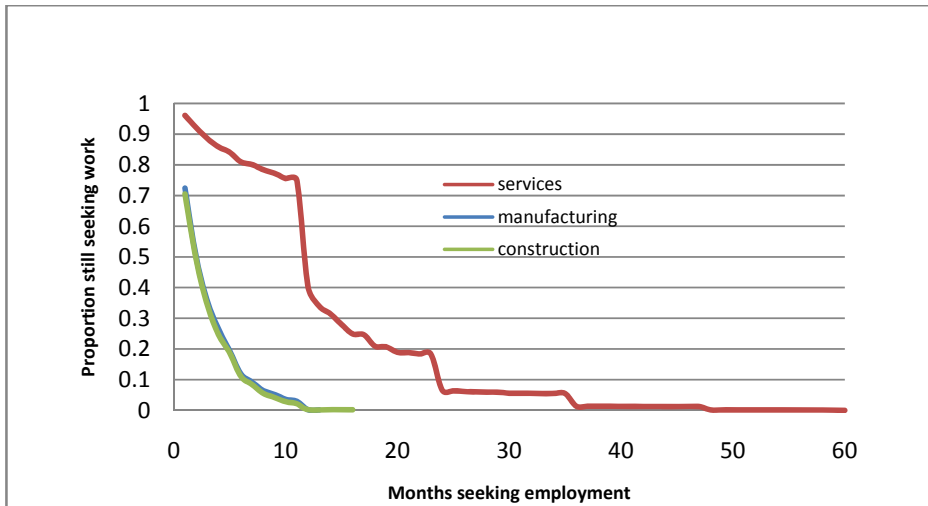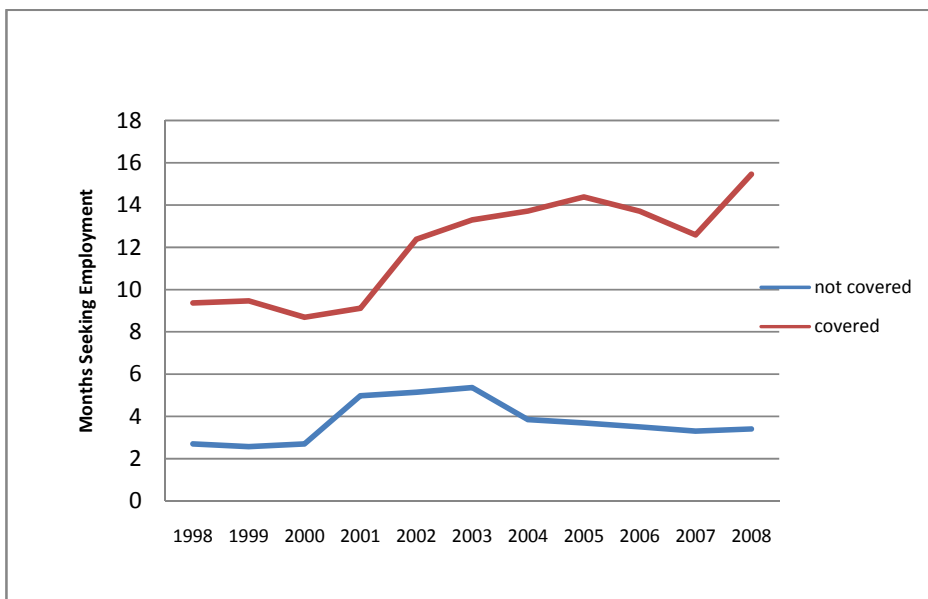|	(1) Full Sample	(2) Males	(3) Females	(4) West Bank Males	(5) Gaza Males
Less than 12 years of schooling	-0.308***	-0.326***	-0.289***	-0.379***	-0.264***
	(0.017)	(0.020)	(0.044)	(0.030)	(0.028)
12 years of schooling	-0.264***	-0.278***	-0.251***	-0.298***	-0.260***
	(0.021)	(0.024)	(0.059)	(0.036)	(0.033)
13-15 years of schooling	-0.244***	-0.259***	-0.254***	-0.310***	-0.209***
	(0.021)	(0.028)	(0.031)	(0.041)	(0.039)
15-19 years old	0.332***	0.256***	0.806***	0.286***	0.220***
	(0.015)	(0.015)	(0.075)	(0.019)	(0.024)
20-24 years old	0.179***	0.070***	0.546***	0.084***	0.059***
	(0.012)	(0.013)	(0.027)	(0.017)	(0.020)
Married	-0.016	-0.060**	0.032	-0.020	-0.104**
	(0.026)	(0.029)	(0.054)	(0.036)	(0.048)
Female	-0.038**				
	(0.017)				
Manufacturing	-0.020	0.034	-0.257	0.056	0.014
	(0.039)	(0.040)	(0.260)	(0.048)	(0.076)
Construction	0.134***	0.156***	-0.332	0.160***	0.030
	(0.033)	(0.033)	(0.306)	(0.040)	(0.062)
Commerce	-0.328***	-0.186***	-1.318***	-0.145***	-0.280***
	(0.046)	(0.047)	(0.275)	(0.054)	(0.106)
Transportation	-0.103*	0.062	-1.546***	0.044	0.003
	(0.061)	(0.062)	(0.356)	(0.077)	(0.105)
Services	-1.747***	-1.822***	-1.401***	-1.638***	-2.208***
	(0.030)	(0.031)	(0.232)	(0.039)	(0.051)
Professionals	0.951***	0.689***	1.181***	0.567***	1.057***
	(0.031)	(0.046)	(0.043)	(0.056)	(0.084)
Shop Workers	0.421***	0.289***	1.020***	0.238***	0.405***
	(0.046)	(0.048)	(0.150)	(0.053)	(0.111)
Skilled Agriculture	-0.598***	-0.620***	-0.553**	-0.579***	-0.381***
	(0.042)	(0.043)	(0.249)	(0.050)	(0.101)
Craft Workers	0.169***	0.127***	0.504***	0.143***	0.071
	(0.023)	(0.023)	(0.145)	(0.026)	(0.054)
Gaza	0.016	0.020*	0.020		
	(0.011)	(0.011)	(0.027)		
Observations	42307	35822	6485	21223	14599

Table 2: Cox Proportional Hazard Model for Leaving Unemployment, Males by Year Group

	(1) 1999-2000	*(2)* 2001-2002	*(3)* 2003-2004	*(4)* 2005-2006	*(5)* 2007-2008
<12 years of schooling	-0.307***	-0.222***	-0.413***	-0.402***	-0.328***
	(0.059)	(0.045)	(0.045)	(0.043)	(0.043)
12 years of schooling	-0.226***	-0.253***	-0.322***	-0.324***	-0.315***
	(0.067)	(0.053)	(0.054)	(0.053)	(0.052)
13-15 years of schooling	-0.274***	-0.149**	-0.295***	-0.305***	-0.231***
	(0.080)	(0.068)	(0.062)	(0.059)	(0.056)
15-19 years old	0.146***	0.146***	0.338***	0.292***	0.381***
	(0.040)	(0.031)	(0.033)	(0.034)	(0.034)
20-24 years old	-0.002	0.040	0.146***	0.107***	0.132***
	(0.035)	(0.026)	(0.028)	(0.029)	(0.030)
Married	0.066	-0.014	-0.048	-0.114*	-0.002
	(0.086)	(0.058)	(0.062)	(0.068)	(0.061)
Manufacturing	-0.162*	0.056	0.073	0.119	0.065
	(0.091)	(0.106)	(0.087)	(0.086)	(0.081)
Construction	0.103	0.138	0.163**	0.298***	0.160**
	(0.075)	(0.085)	(0.072)	(0.073)	(0.069)
Commerce	-0.318***	-0.164	-0.274**	-0.056	-0.109
	(0.104)	(0.126)	(0.110)	(0.103)	(0.090)
Transportation	-0.060	0.266	0.116	0.163	-0.024
	(0.139)	(0.180)	(0.141)	(0.129)	(0.125)
Services	-1.632***	-1.619***	-2.181***	-1.837***	-1.775***
	(0.074)	(0.080)	(0.068)	(0.068)	(0.064)
Professionals	0.262**	0.082	0.920***	1.119***	0.849***
	(0.123)	(0.144)	(0.104)	(0.092)	(0.088)
Shop Workers	0.228**	0.333**	0.391***	0.186*	0.294***
	(0.113)	(0.132)	(0.115)	(0.101)	(0.088)
Skilled Agriculture	-0.284**	-0.701***	-1.155***	-0.211**	-0.228***
	(0.122)	(0.127)	(0.088)	(0.091)	(0.087)
Craft Workers	0.095*	0.048	0.180***	0.123**	0.189***
	(0.050)	(0.058)	(0.052)	(0.052)	(0.052)
Gaza	-0.018	0.337***	0.466***	-0.068***	-0.374***
	(0.034)	(0.026)	(0.025)	(0.026)	(0.026)
Observations	4890	8278	7960	7235	7459

Table 3: Cox Proportional Hazard Function for West Bank and Gaza Strip, Women

	(1) 1999-2000	*(2)* 2001-2002	*(3)* 2003-2004	*(4)* 2005-2006	*(5)* 2007-2008
<12 years of schooling	-0.296***	-0.368***	-0.482***	-0.363***	-0.281***
	(0.110)	(0.114)	(0.099)	(0.088)	(0.100)
12 years of schooling	-0.426***	-0.343**	-0.436***	-0.147	-0.335**
	(0.126)	(0.164)	(0.137)	(0.130)	(0.132)
13-15 years of schooling	-0.339***	-0.307***	-0.214***	-0.315***	-0.305***
	(0.082)	(0.092)	(0.069)	(0.062)	(0.060)
15-19 years old	0.682***	0.326*	0.887***	1.045***	1.206***
	(0.164)	(0.185)	(0.172)	(0.174)	(0.179)
20-24 years old	0.355***	0.397***	0.496***	0.662***	0.645***
	(0.070)	(0.080)	(0.061)	(0.053)	(0.051)
Married	0.247*	-0.016	-0.180	0.053	0.018
	(0.149)	(0.162)	(0.122)	(0.108)	(0.102)
Manufacturing	-0.250	0.146	-1.411**	-0.448	-0.091
	(0.760)	(0.781)	(0.583)	(0.456)	(0.589)
Construction	-0.514	-0.597	-1.366*	-0.487	0.586
	(0.783)	(0.969)	(0.777)	(0.592)	(0.690)
Commerce	-1.214	-1.113	-2.664***	-1.092**	-1.362**
	(0.762)	(0.889)	(0.682)	(0.498)	(0.588)
Transportation	-0.901		-1.878**	-2.497***	-1.071*
	(1.235)		(0.778)	(0.701)	(0.639)
Services	-1.712**	-1.181	-2.651***	-1.646***	-0.898*
	(0.712)	(0.730)	(0.513)	(0.383)	(0.510)
Professionals	0.962***	1.214***	1.209***	1.348***	1.261***
	(0.132)	(0.219)	(0.101)	(0.081)	(0.073)
Shop Workers	1.425***	1.409***	1.091**	0.723**	1.388***
	(0.349)	(0.464)	(0.493)	(0.308)	(0.279)
Skilled Agriculture	-0.747	-0.868	-2.026***	-0.782*	0.185
	(0.751)	(0.853)	(0.561)	(0.414)	(0.534)
Craft Workers	-0.084	0.400	0.831**	0.722**	0.732**
	(0.313)	(0.420)	(0.354)	(0.309)	(0.354)
Gaza	0.365***	0.098	0.157**	-0.088	-0.189***
	(0.080)	(0.086)	(0.064)	(0.054)	(0.050)
Observations	937	779	1249	1697	1823

Table 4: Cox Proportional Hazard Functions for Leaving Unemployment for West Bank, Men, 1999–2000

	(1)	*(2)*	*(3)*	*(4)*	*(5)*
	1999-2000	**2001-2002**	**2003-2004**	**2005-2006**	**2007-2008**
<12 years of schooling	-0.386***	-0.271***	-0.403***	-0.460***	-0.261***
	(0.092)	(0.069)	(0.065)	(0.064)	(0.059)
12 years of schooling	-0.267**	-0.314***	-0.330***	-0.264***	-0.216***
	(0.108)	(0.081)	(0.078)	(0.081)	(0.076)
13-15 years of schooling	-0.421***	-0.172*	-0.354***	-0.381***	-0.223***
	(0.121)	(0.097)	(0.092)	(0.087)	(0.078)
15-19 years old	0.155***	0.217***	0.420***	0.296***	0.245***
	(0.053)	(0.039)	(0.041)	(0.043)	(0.044)
20-24 years old	0.001	0.047	0.173***	0.108***	0.065
	(0.048)	(0.034)	(0.035)	(0.038)	(0.040)
married	0.044	-0.020	-0.049	-0.123	0.073
	(0.102)	(0.071)	(0.074)	(0.085)	(0.087)
manufacturing	-0.238*	-0.107	0.102	0.068	0.104
	(0.123)	(0.135)	(0.105)	(0.098)	(0.094)
construction	-0.014	-0.052	0.162*	0.261***	0.195**
	(0.106)	(0.110)	(0.089)	(0.083)	(0.081)
commerce	-0.342***	-0.397***	-0.258**	-0.052	-0.046
	(0.131)	(0.148)	(0.125)	(0.113)	(0.104)
transportation	-0.178	-0.110	0.143	0.047	-0.007
	(0.189)	(0.211)	(0.168)	(0.161)	(0.156)
services	-1.396***	-1.537***	-2.060***	-1.655***	-1.415***
	(0.113)	(0.107)	(0.085)	(0.079)	(0.079)
professionals	0.357**	0.167	0.874***	0.909***	0.514***
	(0.144)	(0.162)	(0.125)	(0.114)	(0.112)
Shop workers	0.110	0.360**	0.413***	0.117	0.212**
	(0.128)	(0.151)	(0.126)	(0.110)	(0.099)
Skilled agriculture	-0.287*	-0.765***	-1.130***	-0.274***	-0.146
	(0.157)	(0.151)	(0.103)	(0.101)	(0.098)
Craft workers	0.031	0.159**	0.203***	0.145**	0.181***
	(0.056)	(0.065)	(0.058)	(0.057)	(0.057)
Observations	2664	5103	5030	4312	4114

Table 5: Unemployment Duration Hazard Model for Gaza Men, 1999–2008

	(1)	*(2)*	*(3)*	*(4)*	*(5)*
	1999-2000	**2001-2002**	**2003-2004**	**2005-2006**	**2007-2008**
<12 years of schooling	-0.196**	-0.121**	-0.399***	-0.360***	-0.436***
	(0.078)	(0.060)	(0.063)	(0.059)	(0.063)
12 years of schooling	-0.166*	-0.169**	-0.321***	-0.402***	-0.441***
	(0.086)	(0.070)	(0.075)	(0.070)	(0.072)
13-15 years of schooling	-0.067	-0.154	-0.224***	-0.252***	-0.259***
	(0.108)	(0.099)	(0.085)	(0.081)	(0.080)
15-19 years old	0.128**	0.008	0.241***	0.304***	0.601***
	(0.061)	(0.051)	(0.055)	(0.057)	(0.053)
20-24 years old	0.009	0.025	0.108**	0.101**	0.217***
	(0.052)	(0.042)	(0.045)	(0.045)	(0.045)
Married	-0.016	0.032	-0.084	-0.062	-0.099
	(0.159)	(0.102)	(0.114)	(0.111)	(0.088)
Manufacturing	-0.036	-0.038	0.053	0.390**	-0.038
	(0.157)	(0.182)	(0.169)	(0.190)	(0.170)
Construction	0.157	-0.075	0.024	0.303*	-0.051
	(0.117)	(0.147)	(0.133)	(0.160)	(0.147)
Commerce	-0.562**	-0.316	-0.334	0.005	-0.323*
	(0.223)	(0.317)	(0.255)	(0.290)	(0.186)
Transportation	0.129	0.832**	0.096	0.313	-0.299
	(0.207)	(0.372)	(0.271)	(0.224)	(0.209)
Services	-1.887***	-1.951***	-2.863***	-2.208***	-2.565***
	(0.101)	(0.122)	(0.120)	(0.134)	(0.113)
Professionals	0.349	-0.012	1.118***	1.576***	1.663***
	(0.239)	(0.306)	(0.205)	(0.161)	(0.144)
Shop workers	0.838***	0.610*	0.038	0.334	0.440**
	(0.240)	(0.315)	(0.289)	(0.277)	(0.191)
Skilled agriculture	-0.133	-0.076	-0.407*	0.814***	-1.160***
	(0.207)	(0.269)	(0.213)	(0.240)	(0.224)
Craft workers	0.292**	0.055	0.117	-0.077	-0.051
	(0.114)	(0.125)	(0.124)	(0.129)	(0.131)
Observations	2226	3175	2930	2923	3345