Dear CPW participants,

This paper, still in embryonic form, is about the quest for statehood in the Palestinian Territories. The Palestinian Authority (PA) was established in 1994 following the Oslo Accords with the intention of being a transitional, administrative body until final status issues between Israelis and Palestinians were resolved. Thus, many have associated the PA with maintenance of the status quo (namely, the political stalemate with Israel), embodied in its reliance on external donor funds. Yet, it seems that something has changed in the past few years that has emboldened the PA’s leadership to take up the cause of statehood, most recently at the United Nations.

I went to Ramallah this summer to examine this transformation through the lens of public sector employment. Has the steady growth of the public sector workforce played a role in the transformation of the PA from a glorified transitional police force to a state-like entity (if that is actually what is occurring)? Does the pace of state development (if that is actually what is occurring) correspond with the pace of public sector job growth?

I know that I am hand-waving at a number of potential research questions in this paper. I have not dedicated enough time to fleshing each of them out. Which, if any, are the most interesting to you? Which questions, if any, might lend themselves to empirical modeling and testing? (As you can see, I still haven’t gotten there.) Finally, I hope this paper (if it eventually becomes a paper!) will speak to both political scientists and area studies specialists. In that vein, is this paper only about Palestine and its particular thorny concerns, or does it seem like it might be relevant to a broader class of cases?

Thank you in advance for reading this early draft. Look forward to your feedback!

Diana
This paper assesses Palestinian efforts to build a state and the specific role of public hiring in that process. Government jobs, typically thought of as targeted transfers to an individual, are an instrumental part of the state-building process for the Palestinian Authority (PA). Further, jobs within the PA that have been created to reward political supporters and those that are created to serve essential state functions are not mutually distinct categories. I argue that the expansion of public sector employment has been an intentional strategy of PA leaders to demonstrate capacity for statehood to both domestic and international audiences. The larger motivation of this study is to ascertain some of the domestic preconditions for state formation and the role that human capital plays in such a process. However, in order to get at that larger question, I will also discuss some of the reasons behind the public sector’s rapid expansion between 2000 and 2010, a period punctuated by conflict and political transformation in the Palestinian Territories.

The Palestinian Economy in Historical Context

The history of Palestine, dating back to antiquity, has been a history of interaction and conflict with foreign powers, including the Canaanites, Israelites, Romans, Byzantines, a series of Arab caliphs, the Crusaders, and the Ottomans. Zionist immigrants began arriving in the region with the first and second aliyah (1882-1914). The boundaries of the region that is now Israel and the Palestinian Territories were defined with the beginning of the British Mandate in 1923. The West Bank, East Jerusalem, and the Gaza Strip – what is now known as the Palestinian Territories – were a part of the British Mandate until 1947. Following the creation of Israel in 1948 and the war that ensued, the territories fell under occupation by Jordan (in the West Bank, including East Jerusalem) and Egypt (in the Gaza Strip). Estimates vary, however it is certain that hundreds of thousands of Palestinians living within the borders of what is now Israel fled in the lead up to, and during, the 1948 war. In 1967, Israel captured the West Bank, East Jerusalem (which was annexed), Gaza, and the Sinai Peninsula, leading to another outflow of Palestinian refugees, this time many leaving for neighboring countries. The Sinai Peninsula was returned to Egypt in 1979, whereas the West Bank and Gaza have since been under military occupation.

Despite Arafat’s declaration of statehood in 1988 – those who were in the Territories prior to 1948 and those who are refugees or their descendants – are still considered a stateless population. Administration of the territories is shared between Israel and the Palestinian Authority (PA), an administrative organ set up following the signing of the Declaration of Principles (the Oslo Accords) in 1993. The Palestinian Liberation Organization (PLO) is recognized as the “sole legitimate representative of the Palestinian people” in international affairs, most importantly in peace negotiations with Israel, and
the PA was set up as an outgrowth of peace negotiations to administer the West Bank and Gaza Strip. Still the PA’s control over the territories is proscribed: in the West Bank, densely populated urban areas and their environs are designated as “Area A” and under full Palestinian civil and security-related control; less densely populated areas are designated as “Area B,” where the PA holds civilian control but Israel has military control; and areas designated for Israeli settlements fall under full Israeli control, or “Area C.”

[FIGURE 1]

The economy of the West Bank and Gaza is severely restricted by the limited access of Palestinian businesses and workers to external markets. All other borders into and out of the Territories (with the important exception of the Rafah crossing into Gaza from Egypt) are administered by Israel, including the crossing points between Jordan and the West Bank. In 2002, Israel began construction of a separation barrier along its border with the West Bank with the purpose of reducing the threat of suicide attacks on Israel’s territory. The path of the barrier, which is still being constructed, runs partially along the 1949 armistice lines, however it is reported that over 11 percent of the West Bank’s land area will either fall on the Israeli side of the wall or be completely surrounded by the wall by the time of its completion, leading to accusations that the barrier is being erected to seize more land from the Palestinians.¹

Israeli settlements in Gaza were dismantled in 2005, however they exist and continue to grow throughout the West Bank. The settlements and many of the roads connecting them fall under “Area C” and are thus off limits to Palestinians (unless they have a permit to work on the settlements). Palestinian employment in Israel and the settlements has declined sharply in the post-Oslo era. Opportunities for Palestinian workers in the Gulf countries used to be plentiful, however in recent years many of these low-skilled jobs have gone to South Asian and other immigrant workers.

Perhaps surprisingly given these limitations, the West Bank economy has grown rapidly in recent years, after periods of decline coinciding with the escalation of the conflict (1999-2002) and again in 2006 when Hamas seized control of Gaza following their victory in Palestinian legislative elections. Violent conflict with Israel ensued, leading to the sealing off of Gaza’s borders. From 2008-2010, economic growth in the Territories has averaged around 5-6 percent (PCBS, verify). To provide a snapshot of the role of the public sector in the economy: in 2009, total PA commitments comprised 52 percent of GDP, with 24 percent of GDP dedicated to wages alone. As noted in a World Bank report in April 2010: “the share of

¹ B’tselem: http://www.btselem.org/separation_barrier/statistics. The ICJ ruled the barrier illegal in xxxx, and several Israeli Supreme Court decisions have necessitated a rerouting of the barrier due to concerns about its effects on the Palestinian populations living along the border.
the mostly government funded sectors – health and social work, water and electricity, education and public administration and defence (sic) – rose from less than 21 percent in 1999 to almost 30 percent in 2009. In absolute terms, public administration and defence (sic) expanded more than any other sector in this period.\textsuperscript{2} Foreign assistance has played a critical role in allowing the PA to expand. Government employment, one measure of this expansion, increased from 92,400 to 167,000 between 1998 and 2006. The largest annual increase was in 2005 when, as a high-level Palestinian official describes, many former militant groups were incorporated into the Palestinian security services at the end of the Intifada: “I can recall one incident for example…the United States security coordinator at the time had asked that 5,000 people from training camp join the security services in Gaza. You have 15,000 people who are already armed coming and wanting to join. So for each slot, you had three people. In the end, you couldn’t say no to these people, so they ended up having 15,000 people instead of 5,000.”\textsuperscript{3} This was also the time at which average daily wages in the public sector began to surpass those in the Palestinian private sector (SEE FIGURE 2). In 2007, the PA, with the encouragement of donors, imposed a net recruitment ceiling of 3,000 per year. (In 2011, due to the PA’s fiscal crisis, the IMF recommended a hiring freeze for the remainder of the year.\textsuperscript{4})

\textbf{[TABLE 1 / FIGURE 3]}

\textbf{Patron-Client Politics}

Patronage, alternately celebrated for constructively involving the masses in politics during machine era politics in the US and decried for fueling graft and corruption, is distributive by nature – clients receive a benefit from the transaction that is greater than the cost incurred to secure this benefit. Patrons, incumbent politicians, dole out benefits in exchange for political support. (If patronage is financed purely through taxation from the same pool of individuals who are eligible to receive its benefits, then it is redistributive, and some people are taxed but do not receive the benefits associated with being a client.) There are many theories explaining how and why this type of system can persist. The Olsonian collective action problem can explain why smaller and better organized groups might be able to extract benefits from a political patron while other, more diffuse interests are unable to organize for their own benefits. Keefer (2007) finds young democracies are more likely to underprovide non-targeted goods


\textsuperscript{3} Interview with author, August 7, 2011.

\textsuperscript{4} Just counting the number of PA employees is no easy task. Hamas’ control of the Gaza Strip beginning in 2006 introduced the problem of a number of redundant workers, since the West Bank-based PA maintained a number of its employees in Gaza (estimated 3000 workers). Further, estimates may or may not include workers for international organizations (i.e. the UN) as a separate category.
and overprovide targeted goods. Dixit and Londregan (1995) find that segments of society can become “locked in” to an inefficient industry when patronage regimes compensate them enough for their low productivity that the costs of switching industries are too great – an argument that, while not specifically framed in the context of patronage, speaks to why certain patron-client connections can become sticky over time, even when switching to another “patron” (or, in their case, a more competitive industry) might be profitable. Alesina and Tabellini (1990) find that political parties might engage in inefficient levels of government spending to tie the hands of future officeholders who may not be members of the same party. On the composition of that spending, Alesina, Baqir and Easterly (1999) demonstrate why public employment is used as a redistributive mechanism when more explicit tax-and-transfer schemes would not garner enough political support. Building from Coate and Morris (1995), they demonstrate that under certain conditions, politicians will choose to increase public employment even when it would be more efficient to compensate the group via a direct transfer, testing their proposition with data on U.S. cities.\footnote{Alesina et. al do not directly test the demand for transfers versus employment as a form of redistribution – perhaps because it would be difficult to determine the relative “efficiency” of a direct transfer scheme versus public sector job creation, as they have defined efficiency (public employment provides a net benefit to the majority such that they will favor some job creation instead of a pure transfer).}

Finally, Stokes (2005) argues that, while the system would otherwise breakdown if clients did not fulfill their part of the bargain, political machines invest in ensuring clients vote for their party through mechanisms of ‘perverse accountability.’

There has also been a considerable literature on whether patrons will target “core” or “swing” constituencies, and whether one is more typical of the traditional party machines we associate with patronage politics (see Cox and McCubbins, 1986; Dixit and Londregan, 1995; Stokes, 2005).\footnote{In another contribution, James (2005) distinguishes between “pure-and-simple spoils politics” where the benefits of holding office were spread as widely as possible amongst party activists versus “machine-style” politics that was based more upon rational, selective rewarding and punishing of party members, embodied in higher removal rates in electorally competitive settings. In the spoils eras, he elaborates: “rotation in office was an integral part of republican education. Average citizens were encouraged to take part in the administration of the laws, to service their community in a public capacity and to make more tangible the principles of self-rule and popular government.” Parties were not yet “machines” doling out discipline and rewards.}
The nature of redistribution is different in the Palestinian context where a large share of the PA budget comes from foreign donors. The public finance problem, for the PA, is one in which the budget constraint is exogenously determined but, because of the typical problems with foreign aid, could be volatile from year to year. In new and developing state settings, such as the Palestinian Authority, where extractive capacity is weak and a large share of fiscal resources are exogenously determined (by donors, in this case), politicians face a very real trade-off between creating jobs and spending or investing in other ways.

Palestinian Authority: From Arafat’s Patronage Regime to “Fayyadism”
The PA under President Arafat was regularly described as a prime example of patronage politics. Roy (2001) describes the environment after the Oslo Accords were signed in 1994, providing a particularly sober account of how employment in the PA’s new security services resulted in a kind of depoliticization of Palestinian society:

“With Oslo, the interests of the Palestinian leadership focused on securing political control at the cost of national liberation. This disaffirmation of the Palestinian cause, which impinged on an already troubled civil society, was expressed in many ways, but especially in the growing militarization of society as seen in the overwhelming presence of police, intelligence, and security personnel. Almost half of all PA employees performed some sort of security function, a pattern designed not only to assert control and create dependency but to neutralize potential adversaries. Perhaps the most alarming aspect of this trend was the steady absorption of young people into the PA’s security structure. The result of these changes was a striking and unprecedented diminution of nationalist ideology during the Oslo period—the transformation of political activism, for decades so essential to the way Palestinians lived and organized themselves, into popular resignation.”

Khalidi (2006) has noted that Arafat’s “preference for the personal over the organizational, his notorious tendency to create duplicate lines of authority (and often duplicate structures, notably within the security services), his systematic undermining of administrative routine” can only shoulder part of the blame for some of the early failures of the PLO and PA. Meanwhile, Khan (2004) points out the necessity of distinguishing between damaging and necessary rent creation in developing countries and, in particular, conflict or post-conflict settings such as the Palestinian Territories. While rents are normally associated with economic inefficiency they are, to some degree, necessary to achieve a level of political stability and support the emergence of a “viable capitalist class.” Thus, we have two very different narratives: one which emphasizes the use of public sector employment as a means of co-optation – providing youth with a substitute for nationalist struggle, membership in militias, etc. – and another which argues that rent creation (with preferential allocation of public employment being one form) is a necessary step toward state development.

[[Some more history is needed here: Following the 2006 elections in the Territories and the split between Fatah and Hamas, President Abbas appointed former World Bank technocrat Salam Fayyad as Prime Minister. Fayyad made it his public mission to achieve statehood unilaterally for the Palestinians. See “Ending the Occupation, Establishing the State,” Program of the 13th Government, 2009, in which the PA committed to “continue with policies and measures designed to restrict growth of the public sector

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wage bill...[and] strengthen and rehabilitate [the] national economy to create job opportunities in the private sector,” (15).**]

The conventional story would imply that the PA has a large advantage in its relationship with its workers: there are few other job opportunities in the Territories due to weak private sector growth and migration to work in another location is costly. High unemployment rates ensure that replacement workers can always be found. However, creating a job is different from delivering a one-time, or sporadic, transfer. Public sector jobs, often accompanied by formal contracts, establish a longer term commitment between the politician, or political party, and the recipients of jobs. In new states, one might expect politicians to commit to less risky forms of private transfers. However, in the Palestinian Authority (PA) we observe a near secular increase in the number of public sector jobs from the time the PA was created in 1994 until 2010, despite pressure by donors to set hiring targets and limit rampant growth in the wage bill and at least one major fiscal crisis during this period. Is growth in the public sector driven by narrow patronage demands, state building, or some combination of both?

**Ideas for Research Design**

Below, I outline a few potential ways to ascertain the effect of public sector employment on state building, realizing that no single strategy will allow me to model and test such a broad and complex relationship:

1. **Efficiency of Public Sector Job Creation**

Can government jobs, typically understood as a private and targeted transfer, generate public benefits in newly developing states? Growth in the sheer number of workers in the public sector beyond a certain point is assumed to be inefficient, although there is no formula for an optimal size of the public sector in the overall economy. Further, a growing wage bill with a fixed budget constraint prevents the government from deploying its resources toward more productive investment, including public goods provision. Thus, regardless of whether or not public sector employment constitutes a form of patronage, there are many reasons for us to believe that these jobs are being created in a less than efficient manner. (A general director of personnel in a PA ministry bluntly admitted: “we have 300 people doing the job that 150 people could do!”) This certainly does not sound like an efficient outcome. However, it is not well understood how the ratio of “inputs” to “outputs” in the Palestinian Authority might be changing.

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8 {Clarify: Small business prevail in the private sector, most are service-based...both low- and high-skilled workers may be left out. Jobs in international development organizations and NGOs are usually reserved for educated English-speakers and, for these jobs, Palestinians may be competing with foreign labor.}

9 Interview with author (DATE)
over time, or varying across ministries within the PA.\(^\text{10}\) It is not guaranteed that an increase in the public sector workforce implies an increase in inefficiency. Afonso and co-authors (2005) define a measure for public sector performance based on “administrative, education, health, and public infrastructure” outcomes in addition to the more general functions of distribution, stability and economic performance. The challenge with such indicators is that they end up attributing to government nearly the full set of possible measurable societal outcomes, from secondary school enrollment, life expectancy, the size of the shadow economy, to inflation, GDP growth, income inequality and unemployment. Further, challenges arise in trying to determine how to weight across factors, how to deal with missing data, etc.

If the public sector has grown without parallel improvements in productivity/efficiency, we might reasonably conclude that jobs are being created to serve a stabilizing role: economically, to absorb excess labor supply, and politically, perhaps in response to patronage pressures. However, if the public sector workforce is growing and it is growing more efficient (based on some measure of public sector outputs) growth in public sector employment might be serving an important role in state building. Labor force panel data can be used here for descriptive purposes to compare public sector workers’ wages and hours worked with the general population. To measure productivity over time, perhaps a measure can be used that compares wages and hours worked of public sector workers to public sector “output” (perhaps measured as non-wage government spending or an alternative measure of public goods provision/investment).

Further, the Palestinian Authority is only able to deploy its resources in a limited geographic area – Areas A and B of the West Bank and the Gaza Strip (pre-2007). Thus, given limits on the physical space in which the PA can invest, hiring additional workers is a way for the PA to penetrate harder to reach parts of the territories. This may be an easier alternative than investing more in capital and infrastructure development when such investment opportunities are extremely limited and, due to sporadic conflict, risky. In this context, it would be worthwhile to see if the geographic distribution of public sector workers has changed over time. Have government jobs been extended to areas that are otherwise hard to reach for the PA? Labor force data will allow me to look at trends in the sample of public sector employees by governorate over time.

\(^\text{10}\) Looking just at 2010, the Ministry of Foreign Affairs and the Ministry of Interior and National Security have the highest share of its total expenses dedicated to salaries (79-90% and 75-87% for the four months examined, respectively), the Ministry of Education is also high (73-81%), but the Ministry of Social Affairs, responsible for the PA’s social transfer programs, only spends 3-7% of its budget on salaries. The Ministry of Health generally keeps wages at a relatively moderate 38-56% of total expenditures, given the labor-intensive nature of health service delivery. The Ministry of Awqaf/Religious Affairs dedicates a large share of expenses to wages, in the 80-96 percent range for the four months examined!
2. **Core Versus Swing Supporters**

Is public sector employment being used to buy political support for Fatah or for the Palestinian Authority more generally? Has growth in government – in the overall size of the public sector – been associated with increased support for PA institutions among the Palestinian population? Does working for the public sector make one more likely to express support for the Palestinian Authority? Answering this question will shed light on whether the Fatah-led government has targeted their “core” (loyal base) or “swing” constituency with these jobs.11

Survey data from the Arab Barometer from 2003, 2006, 2008 and 2010 will allow me to compare public sector worker attitudes to other segments of the population, focusing on the attitudes of government workers toward the effectiveness of government and public services. (I do not have indicators to directly measure partisan affiliation, however we can see whether individuals participated in elections and also see their attitudes toward religiously-based political parties in general.12) Survey data can at least provide a rough comparison of attitudes toward government amongst public sector workers, private sector workers, and the unemployed.

If public sector workers do not tend to be any more supportive of the government than the general population, however general attitudes toward government have become increasingly positive, we might conclude that the fruits of the PA state-building experiment have been more or less evenly distributed across the Palestinian population. If, however, public sector workers do have more positive attitudes than the general population, the picture of a more purely patronage-based regime seems to emerge. According to this understanding, public employment is truly a private and highly targeted transfer, with the benefits (and associated increase in political support for the ruling party) limited mainly to those who receive these jobs. Finally, if public sector and non-public sector individuals do not have significantly different attitudes toward government and these attitudes have become increasingly negative over time, we might conclude that the expansion of public employment has been driven by goals other than garnering political support from the domestic population, i.e. outside donors or regional political circumstances.

Finally, while not a measure of attitudes toward government, we can infer general job satisfaction and willingness/desire to change jobs from the labor force survey, and compare public sector workers to the general population. How have public sector workers’ attitudes toward their jobs changed over time, 

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11 See Dixit and Londregan, Cox and McCubbins.
12 As far as I know, data on party affiliation of government workers during the 2000-2010 period is not available. While interviews and conversations had in the West Bank indicate that very few, if any, PA workers would admit to supporting Hamas, there are a number of smaller independent parties that are represented in the public sector.
with the growth of the public workforce? Even with a large and efficient public sector, state-building may generate profound instability if public sector workers are dissatisfied with their economic situation and opportunities.\textsuperscript{13}

3. Aid and State Building

If the expansion of public sector employment is part of the PA’s strategy in its relationship with donors, what causes the PA’s donors to choose to invest in labor as opposed to capital or direct consumption goods?\textsuperscript{14}

\{Frame within literature on foreign aid / state development\}

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\textsuperscript{13} There is not a pre-existing data set on number or frequency of public sector union strikes during this period, but we can refer to informal/news-based accounts of these strikes to understand the larger context of worker satisfaction during the period under study.

\textsuperscript{14} Note: If donors really wanted to stop growth in the wage bill and focus exclusively on greater public goods provision, could they credibly threaten to condition their aid on a hiring freeze? Such conditions would be practically very difficult to enforce, because the Ministry of Education and Ministry of Health have typically been the areas of the largest growth of jobs, and are simultaneously perceived as areas that are important for donors to support on a public goods level. Funding to such line ministries is essential to both donors and the PA, who both want to signal their commitment to social welfare. (The other large area of job growth has been in the security services, another strategic area for donors.)
Figure 1. Oslo Accords: Division of Authority in the West Bank
(Source: Independent Evaluation Group, World Bank.)

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<th>2008</th>
<th>2009 (est)</th>
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<tbody>
<tr>
<td>Govt revenues</td>
<td>20.4%</td>
<td>20.8%</td>
<td>21.1%</td>
<td>7.3%</td>
<td>9.4%</td>
<td>21.0%</td>
<td>23.4%</td>
<td>27.5%</td>
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<td>25.7%</td>
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<td>(% of GDP)</td>
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<tr>
<td>Wages (% GDP)</td>
<td>11.0%</td>
<td>11.5%</td>
<td>14.0%</td>
<td>18.1%</td>
<td>20.4%</td>
<td>20.5%</td>
<td>21.3%</td>
<td>22.4%</td>
<td>26.0%</td>
<td>24.9%</td>
<td>23.8%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Govt employment</td>
<td>92,400</td>
<td>103,554</td>
<td>114,940</td>
<td>123,450</td>
<td>122,329</td>
<td>129,182</td>
<td>133,106</td>
<td>151,000</td>
<td>167,000</td>
<td>n/a (see est. below)</td>
<td>n/a (see est. below)</td>
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<tr>
<td>% increase</td>
<td>12.1%</td>
<td>11.0%</td>
<td>7.4%</td>
<td>-0.9%</td>
<td>5.6%</td>
<td>3.0%</td>
<td>13.4%</td>
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Public sector hiring continued to rise after the 2006 elections, with a further wave of recruitment in the public sector – the security sector in particular expanded to include recruits and new trainees. As a result, total employment grew to almost 170,000 by mid-2007.

The main governance concern with the growth in employment has been that hiring and promotion were used to provide benefits to individuals with personal connections to public officials or those linked to political parties. This was apparent in the early period of the PA where employment was used to reward those with links to the PLO, but is also viewed as a key factor in the large growth of employment in 2005 prior to the elections, and in the growth under the subsequent government in 2006 and 2007.

Alongside practices of nepotism, a particular governance problem has been the inclusion of individuals in the public sector payroll who are not carrying out duties or reporting to work. This issue has been identified in past World Bank reports, specifically the 2003 report on the civil service and the 2007 PER. The latter study refers to “a number of employees who receive a salary while working outside the country.”

At the time of the PER, the MoF identified 8,000 non-performing security service employees and about 2,000 non-performing civil service staff. Despite repeated promises to take action, none of the identified non-performing personnel were removed from the payroll. This practice has continued, and since 2007, a large number of PA employees in the Gaza Strip are unable to work because of the separate administration in the territory. The PA has determined that they should continue to be paid pending a resolution of the split. The number of non-reporting staff being paid in Gaza is not known.