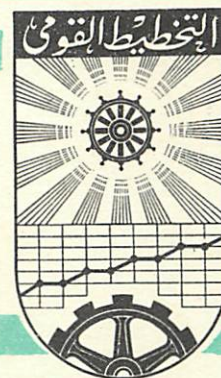


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SOME ASPECTS OF THE EMPLOYMENT
PROBLEM IN THE ARAB REPUBLIC
OF EGYPT

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Some Aspects Of The Employment Problem In The Arab Republic of Egypt

1. The Problem Stated

The problem of increasing labour absorptive capacity is not merely how to absorb the redundant labour but rather how to make the best use of the available resources, including labour. However, the whole process of employment creation may be considered as containing a great number of different variables which can be distinguished from each other for analytical purposes - but which are, at least most of them, closely inter-related.

Not all the variables which may affect the degree of labour absorption and its effectiveness are, or can be, controlled to the same extent, at least for a certain future range of time. Further more, there is no traditionally established and clear cut notion of the diagnosis of employment problems in underdeveloped countries. So many factors proliferate; that at the very beginning one may find it extremely difficult to decide how to enter the problem, so~~to~~ to speak.

Therefore, we cannot accept the fully reasoning given by each of the Conventional theories of unemployment / viz., The Classical theory of wages and employment, Natural wave theories and the Demand deficiency theory. All economic theories are valid - provided that they are internally con-

sistent, but an economic theory can be useful as a guide to policy making only if it is relevant to a particular society. And for it to be relevant it must take into account the structure of the economy, the behaviour of individuals and governments, and the institutions in force.¹⁾ Many of the theories setting out the relationship between economic variables apply only to developed industrial economies and can be misleading or even dangerous when applied to different types of economy. This is what makes it so important for economists from the underdeveloped countries to modify existing models or to develop new ones.

Many Western Capitalist economists make use of the theoretical explanation of the demand deficiency doctrine. They concentrate on the assumption that unemployment is caused by the insufficiency of demand to utilise the available real resources and capacities. The supply approach has been criticized and opposed by some economists, such as Fleming, Hirschman and Singer.

However, as far as effective demand doctrine is concerned, idle capacities are a result of deficiency of demand / the basic Keynesian depression case/. The case differs in

1) Demas W.G. No. 2.

underdeveloped countries. Idle capacity is due to the bottlenecks of the supply of fixed assets and working Capital and ~~not~~ mainly as result of the deficiency of demand. This is the first reason to reject the hypothesis of deficiency of effective demand theory. Therefore, for the smooth work of multiplier there should not be only involuntary unemployment and excess Capacity but there must be an elastic supply of fixed assets and working Capital. That is why underemployment in underdeveloped countries cannot be understood simply in terms of deficiency of demand. The second reason for rejecting the hypothesis of deficiency of the effective demand is to be found in the saving side. Personal savings are low ... which indicate a high marginal propensity to consume. As Mauder said, "the boot is probably on the other foot". There may be a need to restrict consumption.²⁾ Thirdly: the problem of underdeveloped countries is on the supply side i.e...., the productive capacity is a key factor for expansion in the sense that any increment of investment based on deficit financing may lead the economy to inflationary pressure than increasing output and employment. As Kalecki has rightly remarked, if the reserve capacities are non-existent or

2) Mauder, W.F No. 5.

insufficient the attempt to secure full-employment in the short run may easily lead to inflationary tendencies in large sections of the economy because the structure of equipment does not necessarily match the structure of demand.³⁾

Fourthly: the existence of disguised unemployment, household enterprise, production for self consumption, dominance of agriculture, deficiency of capital equipment and of technical knowledge - all characteristic of underdeveloped countries - create conditions analogous to those of the full employment visualized by Keynes, when in actual fact there is no full employment in the economic or even the popularly accepted sense of the term. Fifthly: this theory is concerned with aggregate demand in the sense that any shift of demand which does not affect the level of aggregate demand has no negative impact on the level of employment. This way of thinking does not coincide with the situation prevailing in underdeveloped countries where the degree of mobility of factors of production is extremely low. Sixthly: the expansion of consumer goods industries is not apt to be the effective engine for the proper multiplier in those countries even with a high marginal propensity to consume.⁴⁾

3) Kalecki, M. No. 7.

4) See: Rao, V.K No. 10 see Demas, W.G. No. 2.

The volume of employment, in many of the under-developed countries, grows only to the extent to which the supply of tools, equipment and working capital on the one hand, and of wage goods on which the income of the newly employed is spent, on the other hand are expanded. It may be held that these limitations on employment are likely to be jointly operating, not alternative factors, this is probably true. Yet, at the same time, one of them is likely in any given situation to be the most effective bottleneck. It may be that their relative importance as limiting factors changes at different stages of development.⁵⁾

With this last in mind we consider now the main features that come closer to the heart of employment problems:

- (1) over population, disguised unemployment and lack of employment opportunities outside the agricultural sector.
- (2) Low level and rate of increase of productivity, low income, zero saving for the majority of the people and very little capital per head or capitalization per worker.

5) See: Dobb, S.M No. 3.

- (3) Shortage of social overhead capital, or infrastructure.
- (4) Inadequate investment in human capital.
- (5) Limited experience of the public sector and the technique of planning.
- (6) Imperialistic exploitation.

2. General Problems Related to Employment Creation:

The predominant feature of the Egyptian economy is supply determined. The productive capacity of the economy is the key factor for further development and the elasticity of supply is vital to its effectiveness. Such being the case, Egypt is in sore need for complementarity effect of investment in order to stimulate new energies and new capacities for new productive employment creation.

Furthermore, the process of economic development must be a mean for bringing about full employment. This does not mean that we are striving at full-employment for its own sake but full-employment is an instrument which enables the country concerned to realize the economic growth, social justice and at the same time to achieve an equilibrium of the balance of payment and to avoid the danger of great

6) Higgins, B. No. 6.

inflationary strains.

2.1. The Demographic Factor

Egypt is one of the most populous countries in the world. Population growth and population pressure represent a serious socio-economic problem which is further aggravated by remarkable lack in natural resources.

The population was 9.7 million in 1897 and reached about 37 million in 1975 i.e. an increase of about 27.3 million, representing an increase about 282% within that period. One cannot find a similar increase in population in other countries including India. The population explosion has become a social phenomenon revealed by Egypt's statistics which illustrates a matchless population growth.

The population pressure inflicts a double loss: first, through simple diminishing returns and second, by diverting resources from more to less productive use.⁶⁾

As a matter of fact there is close relationship between the rate of growth of population as well as its age structure and the manpower supply. Furthermore, a large labour force requires a large stock of productive facilities in order to

6) Higgins, B. NO; 6.

have the same productivity per head. The percent of national income that must be invested merely to keep productivity from declining is some three times the annual percent rate of increase of the labour force. In other words, if the labour force were growing by three per cent a year, a level of net investment of nine per cent of national income would be required to prevent declining productivity, while if the rate of growth of the labour force was one per cent a year, the needed level of investment for this purposes would be only three per cent of the national income. This rule of thumb assumes that the stock of capital must increase as much as the labour force to prevent a decline of productivity and assume further that the stock of capital is roughly three times as large as the current level of national income.⁷⁾ Yet the faster growing labour force has no advantages in achieving a high level of savings to finance the needed higher level of investment.

2.2. Saving and the Investment Fund:

The rate of growth of national income in relation to population, investment and capital coefficient can be figured out by the following formula:

$$r = (i/m) - P$$

7) Coal, A. T No. 1, Sangha, K. No. 11.

where

r - represents the rate of growth of income per capita.

i - represents saving ratio

m - represents capital output ratio

p - represents the rate of growth of population.

The ~~human~~ variable ☐ cannot be controlled in the short run and at the same time, technical variable is related to physical type of investment / it is given via the technical coefficient in the plan/. Such being the case the facile princeps factor for the rate of growth of per capita income and employment creation is the national rate of saving.

During the first five year plan / 1960-1965/, the rate of growth of population was 2.8%. In the mean while, the annual rate of growth of the national income averaged about 9.0% in current prices and 6.5% in constant prices. This rate dropped during the period 1965/66 - 1966/67 to 5.4% in current prices. Since 1960, there was a continuous increase in the rate of population growth. It is, however, clear that the high rate of population growth has absorbed a great part of the national income and consequently curtailed the potentialities for

reinvestment and for creating new capacities and employment openings. The national income and its rate of growth were decreased during the period 1967/68 - 1968/69 as a result of the imperialistic aggression which affected directly mining, industry, transport, communication and storage sectors, and also as a result of some deficiencies in the implementation of the national plan.

If we compare the rate of growth of national income with the rate of growth of the per capita income it will be seen that the latter is less than the former as a result of the continuous growth of population. The absorption of the national income by excessively increase of population has restricted the welfare of the society.

It is clear from the table no. 2 in the appendix that, while the rate of national investment during the first five year plan was 17.6% and 16.3% in /1960-65/ and /1965-69/ respectively, domestic savings did not exceed 12.7% and 10.5% in the same order.

Besides, one of the main problems which spring from the policy of employment maximization in Egypt is the difficulty of stabilizing the price level and avoiding the inflationary pressure. The cost of living general index reached 128.9 in

1966/67 compared with 100.3 in 1960/61. If we consider food only, its index number was 98.4 and 152.7 in 1960/61 and 1966/67 respectively. That is why employment openings hinge largely also on the development of wage goods. However, there are wide spread ideas among the economist that full employment could be followed only at the cost of continued inflation.

2.3. The shortage of capital goods:

Manufacturing sector could be divided into three categories, namely: 1/ Consumer good industry, 2/ Intermediate good industry 3/ Capital good industry. The share of capital good industry to the total output of the Egyptian industry is rather puny / viz., 2 per cent in 1950 and 7 per cent in 1970 and consequently the greater part of the intermediate goods was allocated to the requirement of consumer good industry. The moderate increase of the capital good industry is not sufficient for the development purposes. The available size of capital stock would be affected, of course, by the stage of development, specialization and by acceleration of market oriented production, all those factors being interconnected. That is why we should give special stress and concentration on the creation of durable capital assets, that is which / beside the imported capital goods/ by their nature represent the planned investment.

It is unfortunate, indeed, that many luxurious goods are manufactured in Egypt at present e.g., electric washing machines, television sets, transistor sets, private cars, refrigerators, etc., whereas, power and automatic looms needed

for the most important and thriving industry in Egypt, viz., cotton textiles are, to a great extent, still imported.⁸⁾

Besides, the employment problem in Egypt will, however, require more constant appraisal and continuous adaptation of the policy to match with the changes of the international economic structure.

On the other hand the shortage of capital goods is appeared in most cases, in the spread of small scale industries in the form of handicrafts and small workshops, depending completely on the available local raw materials. "The Industrial Production Census - Nine Persons or Less", issued by the Central Agency for Public Mobilization and Statistics, gives a clear picture of such industries and its role in the Egyptian Economy.

As regards the relative importance of such industries in terms of some employment and production criteria, it may be worthy to mention that it employed about 4% of the total labour force and 33% of the industrial labour force; it accounted for 11% of the value added contributed by the whole industrial sector, and some 3% of the total value added contributed by all economic sectors.⁸⁾

Tables Nos (6,7,8) in the statistical appendix give some detailed data about industries under discussion, it shows that it employed more than 285,000 persons with an average of 2 employees / establishment.

Concerning production, the total value of gross output of those establishments amounted to £. 142.2 m., out of

8) Central Bank of Egypt, No. 13.