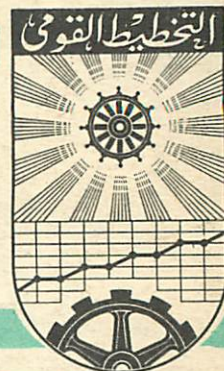


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Government Policies and the Labour

Market in Egypt

By

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GOVERNMENT POLICIES AND THE LABOUR MARKET IN EGYPT

By : Dr. Karima Korayem *

1- Introduction :

The objective of this paper is twofold. First, to find out the government policies that have had an impact on the labour market ; and second , to examine those impacts by analysing the development in the levels and structures of unemployment, employment and wages in Egypt.

Two points should be made clear. First, the examination of the labour force data available in Egypt shows that the Population Census is, relatively speaking, the most dependable source in this regard. Thus, the bulk of the analysis will be between 1960 and 1976, where the last two Population Censuses were carried out ¹. However, to carry out the analysis as close as possible to the present point of time the second best alternative source of the labour force data - the Labour Force Sample Surveys - will be used only to indicate the trend of the changes in the labour market after 1976 and up to 1980 (the latest data available), whenever the data allow ².

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- (1) There was a Population Census in 1966, but this was just a sample survey of questionable quality.
- (2) It is worth noting that the unemployment and employment data in the Labour Force Sample Surveys are less disaggregative than the comparative data in the Population Census. Consequently, the extension of the analysis to 1980 is not feasible in all cases.

Second, the changes in the unemployment and employment cannot be related explicitly to the government policies that have had impacts on the labour market in Egypt. This is not only because of the nonavailability of a consistent time series data that cover the period under consideration¹, but also because of the difficulty of ascribing a certain change in unemployment and/or employment to a specific policy. But, since the mentioned policies have direct and indirect effects on the labour market, their combined effects are certainly reflected in the change in the unemployment and employment structures in Egypt. Thus, our analysis of the impact of the government policies on the labour market will be made by analysing the changes that took place in the levels and structures of the unemployment and employment in Egypt during 1960-1976, and up to 1980 whenever the data allow. The same applies to wages as well.

Thus the paper will be divided into four parts besides the introduction. Part two includes the main policies that were adopted since 1960 and are expected to have had impacts on the labour market. Parts three and four analyse the unemployment and employment dimensions of the labour force in Egypt since 1960. Part five discusses the mechanism of wage determination and wage structure in the Egyptian labour market.

(1) Since the data that we shall mainly depend upon- the Population Census data - are available only at two points of time, 1960 and 1976.

2- From Government Policies to Labour Market

We shall differentiate between two types of policies in terms of their impact on the labour market. The first type affects the labour market directly through its impact on the demand or supply sides of the labour market, while the second type affects the labour market (specifically the demand side) indirectly through its impact on the sectoral structure of the economy.

A- Policies with Direct Impacts on the Labour Market:

The main government policies which were applied since 1960 and had a direct impact on the labour market - through affecting the supply side and/or the demand side of the market- are the following :

- (i) Shortening the work week in the public enterprises from 48 to 42 hours in 1961/62⁽¹⁾,
- (ii) extending free education to the university level since 1962⁽²⁾,
- (iii) guaranteeing a job for the graduates of intermediate and university levels since 1962,
- (iv) the lengthening of the military draft period between the 1967 and 1973 Arab-Israeli wars,
- (v) liberalizing regulations for the emigration of the Egyptians after 1973.

- (i) Shortening the work week in the public enterprises from 48 to 42 hours in 1961/62. This had a once-and-for-all effect on the demand side in the labour market.

(1) B. Hansen "Long-Term Trends in Egyptian Labour Market from Labour Surplus to Labour Shortage", a paper prepared for the ILO comprehensive employment strategy mission to the Arab Republic of Egypt, Cairo, 1980, p.15.

(2) Up to that date, free education was prevailing in the primary and secondary school levels only.

It increased the demand for labour in the public sector to make up for the reduction in the working hours. As a result of this policy and the policy of guaranteeing a job for the graduates of intermediate and university level, which has been issued about the same time, there has been a special public employment drive in the early sixties, specifically after the Nationalization Acts of 1961 which ushered in what may be called the "socialization period" in Egypt that lasted during the sixties.

(ii) Insituting free tuition fees for education at the university level.

This was also one component of the "socialization" package. Since 1962, free tuition fees for education has been extended to cover all levels of education and not only the primary and secondary levels as it was before. This policy is supposed to affect the supply side of the labour market. Having free education allows those people who could not afford to continue their high-level education to do that and hence postpone their entrance in the labour market. However, two points should be noted here. First, in a country like Egypt, where the average income is low, free education is a necessary but not a sufficient condition to drive people towards more education and less work at the early age. This is because the private cost of education does not consist only of paying the school or university fees, but also of the opportunity cost of going to this school or university. By the opportunity cost it is meant the income that the children or youth will forego when they go to school instead of going to work. In the poor families, who represent the majority in the Egyptian society, this "opportunity cost" factor weights heavily, we believe, in their decision to let their children continue their education or not.

It is quite understandable that in this case the " low present income " which they will get when they send their children to work will weight more than the " high expected income " that they will get in the future if they allow their children to continue the education path or just part of it. Actually, the main question is how long the family can afford to "wait" before being able to get income from their young members, and not only whether it can afford to pay their education fees or not. Moreover, there are other expenses, besides fees, which the family has to bear if the children continue their education, like paying for school supplies, clothes, transportation, etc. The second point we like to mention is that although, the rescinding of the education fees is still effective, education cannot be considered a free good at present. This is because, with the high ratio of student/teacher prevailing now and the consequent deterioration of the quality of education, taking private lessons has become a must for many students to be able to pass their examinations.

- (iii) Adopting a "guaranteed employment" policy for graduates of intermediate schools and universities. In 1962, when this policy started, it allowed for the old graduates, who were unemployed, to apply for jobs in the public sector and were guaranteed ones. This was discontinued later, and this policy became applicable to the fresh graduates only. According to this policy, the intermediate and high level graduates apply for public sector jobs through the Ministry of Manpower and Vocational Training, which at the same time solicit the requests for graduates from government institutions and public enterprises.

This policy affects both sides in the labour market. On the demand side, guaranteeing a job for the intermediate and high-level graduates makes the government responsible to create jobs for these graduates. The government meets this commitment by hiring them in the public sector - the only place it can allocate them to ⁽¹⁾ - increasing, thus the demand of the public sector for labour in general, and for those with intermediate and university education levels in particular. On the supply side, by making intermediate and high-level education more attractive (since students do not really run the risk of being unemployed after graduation) it is supposed to delay the entering of the children and youth to the labour market. Having free education and being guaranteed a job as well after graduation, makes education worthy, as long as you can afford the opportunity cost of the education period. Consequently, this policy is supposed to affect also the quality of the labour supplied by

(1) However, recently, the public enterprises were no longer obliged to hire the graduates if they have no need for them. This leaves the graduates to be hired in the government institutions only. It has been also announced by President Sadat 1981 that the new graduates will be employed in the government institutions outside Cairo governorate.

increasing the relative share of the educated in general, and those with intermediate and higher education levels in particular, vis-a-vis the non-educated labour ⁽¹⁾ . One may summarize the impact of this policy on the educated labour as follows : it increases the supply of the educated labour with intermediate and high education levels and also it increases the demand for them ⁽²⁾ . However , the impact of this policy on the unemployment of this group - and hence its impact on the educated labour unemployment ⁽³⁾ - is not zero as one might think . This is because the government does not create jobs for the new graduates in the same year of their graduation as it used to be in the sixties. Now they have to wait unemployed for three to four years after graduation until they get a government job ⁽⁴⁾ .

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- (1) This implies a direct relationship between education and the improvement in the quality of labour, which is supposed to be true. This is because the educated labour as compared to the illiterate one is supposed to be able to learn new skills more easily, be more efficient, broadminded, etc.
- (2) Since the government is responsible to provide a job for every intermediate and high level graduate.
- (3) By educated labour we mean all those who have primary and higher levels of education. Therefore, if the impact of this policy is for example, an increase in the unemployment of the intermediate and higher level graduates, this would have led to an increase in the unemployment of the educated as a group, since those with intermediate and high education levels are just a subgroup of the total.
- (4) For example, the intermediate education level graduates of 1977 and the university graduates of 1978 are offered government jobs in 1981 - see, El Ahram - a daily newspaper, Cairo , 2.6.1981.

Moreover, the gradual lengthening of the lag period between the supply of and the demand of the new graduates - i.e. the gradual lengthening of the waiting period of the new graduates - increases the rate of growth of the unemployment of the educated labour than in the case when this lag period has been kept constant ⁽¹⁾. For example, in the beginning of the application of this policy, the new graduates used to be hired in the same year of their graduation; then a waiting period of one year after graduation developed and this waiting period grew longer gradually until it is now four years for the intermediate education level graduates and three years for the university graduates. The contribution of this policy to unemployment can be seen clearly by the fact that in 1976, for example, the share of the newly unemployed with intermediate and higher education levels in the total newly unemployed is 31.8 % ⁽²⁾.

(1) Since, when the lag period is constant, three years for example, this means that those who graduate in a certain year take the place on the unemployment queue of those who graduated three years ago and now get government jobs. The increase in unemployment in that year will be equal, then, to the difference between the numbers of the two groups (the new group of graduates is probably larger than the old one). But, if the lag period is extended by one year, for example (i.e. it becomes four years), then, the increase in unemployment in the year where the extension takes place, will be equal to the total number of the new graduates.

(2) Calculated from Table 4 in the text.

- (iv) Lengthening of the military draft period after the 1967 war and until the 1973 war. The military draft period, was extended to five and six years in some cases. This has probably had contradictory impacts on the supply of labour in the labour market: First, it decreased the supply of the primary workers ⁽¹⁾, since lengthening the draft period means delaying their entrance -or re-entry- in the labour market ⁽²⁾. Second, it increased the supply of the secondary workers in the labour market.⁽³⁾ This is because the low-income families might be obliged to let their female and/or old age member(s) and/or children enter the labour market and look for a job to support the other members of the family as long as the breadwinner of the family is in the army. In other words, some of the female and old age workers and children who have entered the labour market in the late sixties and early seventies have done so mainly because the male workers(s) in the families stay for a long period in the army with nominal salaries ⁽⁴⁾.

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- (1) Primary workers consist of all male workers in the age group 15 - 60 years.
- (2) The conscripts are most probably not included in the labour force in the population census of 1960 and 1976 although nothing regarding this issue has been stated openly in the Census. This conclusion has been reached by El-Issawi and Hansen after examining the data; see Hansen op.cit., and El-Issawi, "Employment Inadequacy in Egypt", a paper prepared for the ILO comprehensive employment strategy mission to the Arab Republic of Egypt, Cairo, 1980.
- (3) The secondary workers as defined in the relevant literature, are children and teenagers, the females, and the old male workers. Although we find it difficult to accept the prevailing concept that the working females in the age group of 15 - 60 years are considered "secondary" and not "primary" workers as the working males in the comparative age group, we continue including them in the "secondary" workers group to ensure comparability with other studies in the literature.
- (4) The conscripts (educated and non-educated) get nominal salary during their military draft period. Only two categories get salaries comparable to their civilian counterparts after their first year of conscription. These are the conscripts (educated and non-educated) who were employed in the public sector before being drafted, and the intermediate and high level graduates, who were drafted after graduation but were allocated to public sector jobs by the Ministry of Manpower (according to the policy of guaranteeing jobs to the graduates) during their military draft period. All the others, who were working in agriculture and other private sector activities, and who represent the majority, continue on their nominal salary during their drafting period.

This may be considered as an "additional worker" effect although its causes are quite different from the causes creating this phenomenon in the developed countries. While the developed countries experience the additional worker effect in the slack periods when the primary workers could not find a job and, hence, the secondary workers enter the labour market to support the members of the family. Egypt, we think, may have experienced the same phenomenon during the period between the 1967 and 1973 wars, when the primary workers are in the army and the secondary workers have to take a job to support their families. The final outcome of these two impacts on the supply side of the labour market depends on which of these impacts is larger : the decrease in the supply of primary workers or the increase in the supply of the secondary workers. However, this final outcome cannot be measured quantitatively because of the nonavailability of data showing the decrease in primary workers employment due to drafting on one hand, and on the other hand, the implausibility of separating the increase in the employment of the secondary workers due to the lengthening of the drafting period and the increase in their employment due to other reasons (like inflation, the increase in the number of educated females, etc.).

- (v) Opening the door for the Egyptian labour to emigrate. This took place especially after the 1973 war. The majority of emigrants go to the arab oil producing countries. This policy has positive as well as negative effects on the supply side of the labour market. By allowing labour to emigrate, their supply in the economy decreases and, given the prevailing level of the demand for labour, unemployment falls, which is certainly a positive impact. The negative impact is represented by the fact that those who can easily find jobs in the receiving countries are the relatively "highly qualified" labour; the result is creating shortages in the country with respect to some qualifications (like the acute shortages in skilled labour which Egypt is experiencing at present, for example). Thus, one may say that this policy has a positive impact on the quantity of labour domestically supplied (by decreasing it) and a negative impact on the quality of this supply (by deteriorating it).

Another way of examining the impact of the emigration policy on the labour market and reach the same conclusion regarding its impact on unemployment is to look at it from the demand side. This policy, by allowing the Egyptian labour to be demanded by foreign countries, it does increase the total demand - domestic and foreign - for Egyptian labour. Given a certain level of labour supply, the excess supply decreases and hence, unemployment falls.

B- Policies with Impacts on the Sectoral Structure of the Economy :

The Egyptian economy has undergone structural changes since 1960. These changes should have had impacts on the demand side in the labour market. This is because the demand for labour depends mainly on the sectoral composition of the GDP and the methods of production used in these sectors to produce the output that meets the aggregate final demand for goods and services ; i.e. the demand for labour is a derived demand. We shall be interested in this section in showing the main economic policies that are expected to have had impacts on the structural composition of GDP and the development that took place in this structure since 1960, attempting to find out whether or not those changes have been in favour of more employment in the economy.

The main policy that has affected the economic structure in Egypt in the sixties is the planning policy. The implementation of the first five-year plan during the first half of the sixties together with the application of the Nationalization Acts in 1961 are expected to have had effects on the structure of the Egyptian economy. The first five-year plan (1960/61- 1964/65) transferred the Egyptian economy from a market economy to an economy geared to planning. A main feature of this plan was giving greater emphasis to the manufacturing sector. In 1961- i.e. one year after the beginning of the five-year plan - the Nationalization Acts were announced and, accordingly, a large public sector was created ; the implementation of the plan became mainly the responsibility of the government. The termination of the five -year plan was followed by

"annual" plans and the Egyptian economy continued to be described - at least officially - as a "planned" economy (1).

Another important economic policy that has been announced in the seventies and is having structural impact on the Egyptian economy is the open-door-policy. This policy whose main emphasis is the encouragement of the expansion of the private sector, has started in 1974 and, hence, one cannot expect to see its impact reflected in the economic structure prevailing in 1976. This means that the sectoral composition of GDP in 1976 as compared to 1960 is mainly the product of the planning policy undertaken at the beginning of the sixties and the performance of the economy during the second half of the sixties and the first half of the seventies. This economic performance has been affected by the two Arab-Israeli wars in 1967 and 1973. The 1967 war in particular has had negative impact on the economic growth of the country. After the war the first priority in the allocation of resources was not given to economic development but rather to the rebuilding of the army, which is quite natural. This was reflected in the low rate of growth achieved by the economy between the two wars (i.e. during 1967-1973). In 1975, the economy started to take off again in terms of its rate of growth (2).

One may expect that the impact of the open-door policy on the economic structure has been reflected to some extent in 1980. Thus, the sectoral composition of the GDP in 1960 will be compared with the sectoral structure in 1976, where the latest Population Census (our main source of the labour force data) was carried out, and with the sectoral structure in 1980.

(1) A second five year plan was supposed to start in 1965. But it was postponed for two years to allow- according to the official announcement- for the completion of the projects that had not been finished during the first five year plan. In 1967, the Arab-Israeli war broke out, and the second five year plan never started.

(2) The rate of growth of GDP (at factor cost) was 9.8% in 1975 as compared to an average annual rate of growth of 2.9% during 1966-71 ; see the World Bank, Economic Management in a Period of Transition, op.cit., vol.6. p.24.