



**TOWARDS FULL EMPLOYMENT:  
EGYPT INTO THE 21<sup>st</sup> CENTURY**

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## FOREWORD

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It is easy for economists and policy makers to get sidetracked discussing subsidiary issues while neglecting essential. Although relevant, inflation, budget deficits and stock market volatility fall into the category of ancillary issues. In contrast, growth, unemployment and income distribution affect the population at large and thus require greater consideration. This publication attempts to redirect attention and dialogue to these important matters by examining unemployment.

The paper characterizes the evolution of unemployment in Egypt over the past three and a half decades, outlines the economic trends in three sub-periods and offers a recipe for fuller employment as the “high road to growth.” Although the prescription is applied to Egypt, it is relevant to all developing countries suffering from the unsustainable policy of government-led employment in the public sector. Two findings stand out. First, growth is a necessary condition for job creation and a labor-creating growth strategy is needed to solve unemployment. Second, there is a strong link between growth, unemployment and equitable income distribution through educational reform.

Implementing these solutions is the greatest challenge. This was addressed in the discussion that followed Dr. Radwan’s lecture at ECES. The range of questions covered the impact of liberalization on employment, the accuracy of unemployment figures, the effect of unemployment insurance on the labor market, the challenge of reforming the civil service, and the alternative of microenterprise. These challenging questions were met with insightful answers that I hope will enrich the dialogue on unemployment in Egypt.

Ahmed Galal  
Executive Director,  
ECES  
December 1997

## تقديم

قد يؤخذ على بعض الاقتصاديين وصانعي السياسات إنصرفهم إلى مناقشة قضايا فرعية وإهمالهم قضايا أساسية تهم قطاعات عديدة في المجتمع. وهذا ما يحدث عندما يهتمون بقضايا مثل التضخم وعجز الموازنة وسرعة تقلب أسواق الأوراق المالية دون إعطاء أهمية أعلى لقضايا مثل النمو الاقتصادي والبطالة وتوزيع الدخل. وعلى ذلك فإن هذا الإصدار من سلسلة المحاضرات المتميزة له أهمية خاصة لأنه يعالج واحدة من أهم القضايا ألا وهي قضية البطالة. وفي إطار معالجتها لموضوع البطالة في مصر تحدد الورقة معالم تطور هذه الظاهرة على مدى العقود الثلاثة والنصف الماضية، كما توضح أثر الاتجاهات الاقتصادية المختلفة على تطورها، وأخيراً تقدم علاجاً لتحقيق "التشغيل الكامل" باعتباره "الطريق الأسمى للنمو". وعلى الرغم من أن هذا العلاج خاص بحالة مصر، إلا أنه يصلح لجميع الدول النامية، خاصة فيما يتعلق بنتيجتين هامتين: الأولى هي أن النمو شرط ضروري لخلق فرص العمل، على أن يكون هذا النمو في إطار استراتيجية تهدف إلى خلق فرص عمل جديدة. والنتيجة الثانية هي أن هناك صلة قوية بين النمو والعمالة والتوزيع العادل للدخل، وتكمن هذه الصلة أساساً في إصلاح نظام التعليم.

ورغم معقولية النتيجتين السابقتين إلا أن التحدى الأعظم يكمن في وضعهما موضع التنفيذ، وهذا هو ما تناولته المناقشات التي دارت عقب محاضرة الدكتور سمير رضوان في المركز المصرى للدراسات الاقتصادية. وقد تضمن فيض الأسئلة موضوعات مثل أثر سياسة التحرير على العمالة، ومدى دقة الأرقام الخاصة بالبطالة، وتأثير التأمين ضد البطالة على سوق العمل، والتحدى المتمثل في إصلاح الإدارة الحكومية، كما أثير موضوع دور المشروعات الصغيرة في خلق فرص العمل كأحد البدائل الممكنة.

وقد وجدت هذه الأسئلة المثيرة ما يناسبها من إجابات اتسمت في مجملها ببعد النظر والتعمق، مما أمل في أن تسهم في إثراء الحوار الدائر حول مشكلة البطالة في مصر.

د. أحمد جلال

المدير التنفيذي

المركز المصرى للدراسات الاقتصادية

ديسمبر ١٩٩٧

**ABOUT THE SPEAKER**

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Samir Radwan has been working with the International Labour Office since 1976 and is currently the Director of the Development Policies Department. A graduate of the universities of Cairo and London (M.Sc., Economics of Underdeveloped Countries, 1967 and Ph.D., Economics, 1973), Dr. Radwan specializes in development economics.

He has served as a consultant to numerous international organizations and is a member of the Brundtland Commission's Panel on "Food Security, Agriculture, Forestry and Environment." He was formerly a lecturer at St. Anthony's College, Oxford, and at the Faculty of Economics, Cairo University.

Dr. Radwan has published extensively on human resource development, rural development, institutionalization and Arab and African economies and labor markets. He recently co-authored a book on rural labor markets and structural transformation in Tunisia and co-edited "State, Market and Civil Organizations.

**PART I**

**TOWARDS FULL EMPLOYMENT:  
EGYPT INTO THE 21<sup>ST</sup> CENTURY<sup>1</sup>**

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**1. Introduction: Time for a Strategic Shift?**

There is a growing consensus in professional circles, as well as in the press, that Egypt's potential for economic takeoff has never been better (Ministry of Economy 1996, p.9).<sup>2</sup> The Government's recent declarations also emphasize the need for a 'great leap forward.' The economic stabilization programs adopted in the early 1990s have achieved most of their objectives, and there has been a turn-around in growth performance thus reversing the negative or stagnant growth rates which characterized the period from 1985 to 1992.

Table 1 summarizes selected indicators of macroeconomic performance and shows that by 1995/96 the economic reform programs were successful in redressing both internal and external imbalances with the budget deficit standing at as little as 1.3 percent of GDP. The balance of payments situation has continued to improve, registering a surplus of 0.2 percent of GDP; external debt has declined to less than 50 percent of GDP and the debt service ratio is less than 15 percent of exports; official reserves amounted to US\$ 18.4 billion, or 16 months of imports; and inflation has been reduced to 7 percent (CPI shows an increase of 10.9 percent in 1996). Less progress has been made in investment and savings, which declined during the last five years. Exports remain sluggish while imports continue to increase. The result has been a resumption of growth at an average of 4.3 percent during the last three years.

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1. These views do not necessarily reflect those of the ILO. The author is grateful to Dr. Ahmed Galal and Dr. Nader Fergany for extensive comments on an earlier draft; to Mrs. Rasha Kinawy, Ms. Christine Gaignebet, and Ms. Nagwa Riad for research assistance; and Mrs. Geraldine Ople for secretarial assistance.

2. See also, "Rising Sphinx," *The Wall Street Journal*, 10 April 1997.

**Table 1. Selected Indicators of Macroeconomic Performance, (% of GDP, unless indicated)**

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96*
Real GDP growth rate (%)	3.6	1.9	2.9	3.9	4.7	5.0
Inflation (% change in CPI)	14.7	21.1	11.1	9.0	9.4	7.2
Consumption	85.9	83.0	83.3	84.9	83.1	86.0
Investment	23.3	18.2	16.2	16.6	16.3	16.7
Government Investment	13.4	8.5	7.0	6.1	5.5	5.5
Domestic Savings	16.0	17.0	16.7	15.1	16.9	13.9
Fiscal Balance	18.1	-5.4	-3.5	-2.1	-1.2	-1.3
Exports (US\$ billion)	3.9	4.2	3.7	3.5	4.0	4.7
Imports (US\$ billion)	10.3	9.8	8.9	9.9	10.0	12.3
Current Account Balance	5.2	4.1	5.1	0.2	0.6	0.2
Official Reserves (US\$ billion)	6.1	10.6	14.9	17.0	17.9	18.4
External Debt	107.7	89.5	69.2	58.0	55.7	49.2

\* Estimates

Sources: Ministry of Planning, Central Bank of Egypt, Economist Intelligence Unit, *Country Forecast, Egypt*, 4th quarter 1996.

Yet, this progress at the macro-level has not been matched in two crucial areas: employment creation and poverty reduction. Open unemployment is estimated at 10 to 13 percent of the labor force, and, given the high rate of growth of the latter (2.8 percent annually), the economy must create 500,000 to 600,000 jobs a year over the next decade to absorb the new and predominantly young entrants to the labor market. Poverty remains high and has continued to increase from 29 percent of the population in 1981/82 to 35 percent in 1990/91. There are indications based on the *1995/96 Household Income and Expenditure Survey* that as much as half of the population may be living in poverty, thus suggesting a deepening of economic inequality (the share of total income of the upper 20 percent increased from 42.3 percent to 45.1 percent between 1991 and 1993, while total income of the bottom 40 percent declined from 19.5 percent to 17.0 percent) (INP 1995, p.63).

It is against this backdrop of persisting poverty that the need for a major shift in development policies is urgently needed. To this end, the Egyptian government has

recently published its development strategy for the next two decades, “Egypt and the 21<sup>st</sup> Century” (Cabinet of Ministers 1997).

This paper attempts to contribute to the current debate on the future orientation of the Egyptian economy. Its primary assertion is that Egypt must build upon the current strength of the economy and take the high road to growth with the long-term objective of achieving full employment. That is to say, establishing effective demand high enough to create sufficient employment with a minimum unemployment rate of some 2 to 3 percent and without high rates of inflation. But is this a realistic objective? There are compelling reasons to believe this is an attainable goal. This paper shows that such a strategy is viable provided a consistent and mutually reinforcing set of policies (at the macro-, sectoral and micro-levels) is implemented within the framework of an overall long-term strategy for sustainable growth with equitable distribution. Undoubtedly this is a formidable challenge at both the theoretical and policy-making levels.

To elucidate these issues, the paper begins by outlining in Section 2 the nature and magnitude of the employment problem in Egypt by focusing on labor market outcomes in terms of unemployment and incomes. In Section 3, an interpretation of the present situation sets the stage for suggesting an alternative policy framework and arguing its viability in Section 4. Section 5 concludes by pointing to some essential pre-conditions for this strategic economic shift.

## **2. A Profile of the Employment Problem**

Unemployment has been Egypt’s primary economic concern in the 1990s. With population growing at 2.2 percent a year, and a labor force increasing at an even faster rate of 2.8 percent a year, the economy, growing at only 2 percent a year, is unable to generate sufficient demand to absorb the 500,000 new entrants to the labor market annually.

The economic history of Egypt can be seen as a continuous attempt to cope with this



unemployment. Throughout its history, the state has played a major role in job creation particularly through public works. At times the private sector has taken the lead in employment creation as in the Misr Bank experiment 1920s and 1930s and later when a vibrant private sector developed during World War II. Over the last three decades, however, the state has resumed its role as the primary job provider. The following sections summarize the legacy of this policy approach.

### ***From Surplus Labor to High Unemployment***

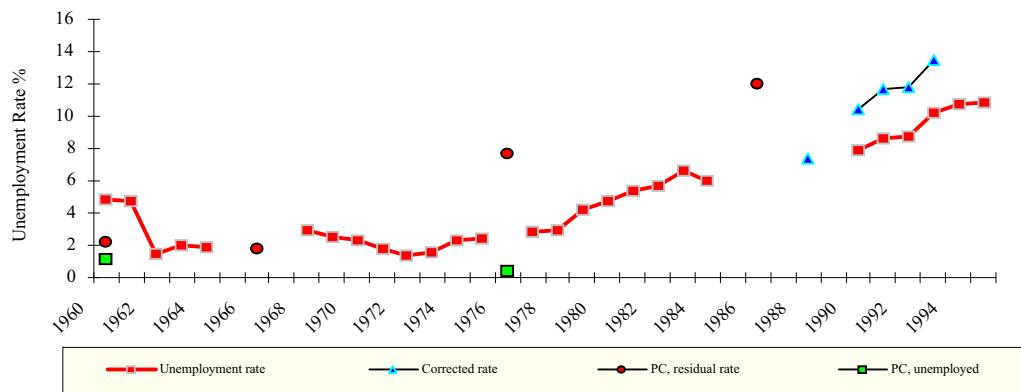
Notwithstanding the inadequacies of labor market data, we have assembled in Figure 1 information on unemployment from the Population Census and the Labor Force Sample Survey for the period 1960 to 1995.<sup>3</sup> Based on this data, we can divide the past 35 years into three sub-periods:

***The 1960's: The labor surplus economy.*** In this era open unemployment was negligible and declined to levels below the natural rate of 2 to 3 percent. The state was the major actor in economic life, and jobs were created through massive investment in agriculture, infrastructure and import-substituting industries, as well as the rapidly expanding government and public sector. Graduates and men completing military service were assured of jobs under the employment guarantee scheme, and the state became the primary employer in the country after agriculture.

The problem during this period was underemployment with the majority of workers relying on low-productivity jobs in agriculture or the informal sector. Arthur Lewis cites

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3. Data on employment and unemployment are notoriously inadequate. At the request of the Egyptian government, the ILO has completed a UNDP-supported project to review the LFSS and suggest an alternative based on international standards. A team, led by Dr. Nader Fergany, with members from the Ministry of Labor, CAPMAS, and the Center for Support to Cabinet Decision Making, is in the process of publishing a newly-designed bulletin using the 1995 LFSS data. See CAPMAS and ILO, *Review of The Labor Force Sample Survey in Egypt, Estimates of Employment and Unemployment, and Proposals for Improvement*, Cairo, July 1996. All Unemployment estimates in

**Figure 1. Unemployment Rates, 1960-1995**

Egypt during this period as a textbook example of surplus labor waiting to be shifted to more productive sectors (Lewis 1954). The state pursued a full employment policy at a low level with both low wages and productivity, until the early 1970s when it became clear that such policies were not tenable and the whole system was caught in, what may be called, a low-level productivity trap.

**1975-1985: *The beginning of open unemployment.*** During this decade, the government launched its Open Door Policies, and the economy grew at the unprecedented rate of 8 percent per year, fueled by a steady flow of resources from the Suez Canal, oil exports, tourism, workers remittances and borrowing. The employment problem became more complex than ever before.<sup>4</sup> The employment-creating sectors, agriculture and public service, were saturated and construction and services, were not creating sufficient jobs. The employment problem was alleviated through the increased demand in the gulf states for migrant labor following the increase in oil prices in 1974. Some 10 to 15 percent of the Egyptian labor force emigrated. The labor market became tight, labor shortages began, and

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this paper are from this publication unless otherwise indicated.

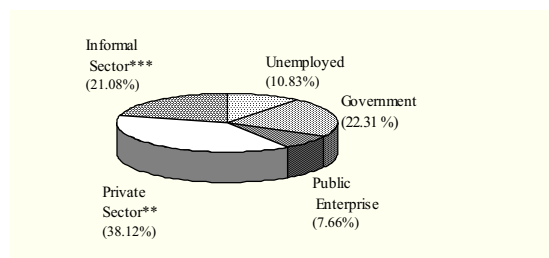
4. For analysis see Bent Hansen and Samir Radwan, *Employment Opportunities and Equity in Egypt: A Labor Market Approach*, ILO, Geneva, 1982.

real wages went up. Paradoxically, labor shortages existed side-by-side with open unemployment resulting from various structural and frictional rigidities. This period demonstrated the limits of growth which relies too heavily on exogenous factors and showed that the composition of growth is just as crucial as the rate of growth when considering employment creation.

***1985-1995: Slow growth, high unemployment.*** This period may be described best as one of retrenchment. The major factors that fueled the high-growth performance of the previous decade (massive resource flows from abroad and a domestic boom based on construction, services and remittances exhausted their impact). Emigration peaked in the early 1990s, and net return migration became a reality particularly after the gulf war. This was reflected in a slowing of growth that continued until 1993 (the economy grew at rates ranging from 0.3 percent to 2.5 percent per year, and per capita income registered zero or negative growth rates). The major source of growth during this period was vigorous government-led investment in infrastructure. Given this rate and pattern of growth, it is not surprising that open unemployment climbed to new heights, reaching 10 percent in May 1993, and fluctuating at this level since. If the data are corrected for shortcomings, such as underestimating female participation and under reporting employment of individuals under 15 and above 60 years, unemployment may be as high as 13 percent (Fergany 1995).

### ***The Structure and Performance of the Egyptian Labor Markets***

It is useful to take a closer look at the structure, performance and outcome of the Egyptian labor markets during the 1990s. Table 2 and Figure 2 show that the private sector employed the greatest number of people (38.2 percent), followed by public employment (30 percent) in the government (22.3 percent), and public enterprise (7.7 percent).

**Figure 2. Structure of the Labor Market, 1995****Table 2. The Labor Markets in 1995**

Total labor force*	17,726	100 %
Unemployed	1,919	10.8
Employed	(15,808)	(89.2)
Government	3,955	22.3
Public Enterprises	1,358	7.7
Private Sector**	6,758	38.2
Informal Sector***	3,737	21.0

Notes: \*Does not include immigrants.

\*\*Including agriculture and self-employed.

Agriculture employed 5 mill. +, 28% of the labor force.

\*\*\*Includes self-employed outside establishments.

This is an underestimate as a large proportion of private sector employment, especially in trades and services, is in the informal sector.

Source: CAPMAS, LFSS, 1995.

It is important to note, however, that agriculture is still the primary source of private employment and constitutes one-third of the overall economy (World Bank 1994, p.10 and Table 16). Thus the state continues to be the main provider of non-agricultural employment, and public employment has increased slightly since the 1980's when it accounted for 28 percent of total employment.<sup>5</sup> After agriculture, the private sector was the leading employer in tourism (95.3 percent of total employment in 1987/88-91/92), real estate (89.2 percent), construction (73.7 percent) and manufacturing (55.5 percent) (World Bank 1994, Table 16). These sectors are not generally large employers and tend to be more capital intensive than labor intensive. Another element central to the labor markets is the informal sector which absorbs one-fifth of the total labor force. According to Handoussa and Potter, the informal sector has been, and is likely to become, even more essential to employment and income generation for more than half of the non-agricultural population.

Considering the impact of various economic activities on employment, Table 3 shows that between 1989/90 and 1994/95, some 1.8 million jobs were created at an average of

5. Hansen and Radwan, op. cit., p. 144.

370,000 jobs per year (Handoussa and Potter 1992, p.23). The leading sectors were manufacturing followed by services and construction. Agriculture, which experienced a decline in both relative and absolute terms during the 1970s, appeared to attract new workers as a result of the shift to high-value, labor-intensive fruit and vegetable crops, and the reemergence of family farms as a major source of income (due to the shifting terms of trade in favor of agriculture). It is surprising to note that employment in tourism declined slightly despite the tourist boom in recent years. One explanation is that the data only report employment in the formal sector and omit the numerous workers in the informal tourism sector.

**Table 3. Employees by Economic Activity, 1989/90- 1994/95 (000s)**

Sector	1989/90	Sector share %	1994/95	Sector share %	Growth in % 1989/90-94-95	Sector share increase %
Agriculture	4,478	34.4	4,744	31.9	1.16	14.4
Industry	1,638	12.6	2,031	13.7	4.39	21.3
Petroleum and its products	35	0.3	41	0.3	3.22	0.3
Electricity	97	0.7	114	0.8	3.28	
Housing and construction	780	6.0	1,038	7.0	5.88	14.0
Transportation, communication and Suez Canal	452	3.5	690	4.6	8.83	12.9
Finance, trade and insurance	1,325	10.2	1,624	10.9	4.15	16.2
Tourism, hotels and restaurants	140	1.1	136	0.9	(0.58)	(0.2)
					decrease	
Real estate	207	1.6	230	1.5	2.13	1.2
Social and personal services	1,227	9.4	1,506	10.1	4.18	15.1
Public utilities, social insurance and government services	2,653	20.4	2,725	18.3	0.54	3.9
Total	13,032	100.0	14,879	100.0	2.69	100.0

Note: We relied on data from the Ministry of Planning to obtain a longer series. It should be noted, however, that these data underestimate the labor force compared to the LFSS which reports a total employment figure of 15,808,000 for 1994/95, or one million more than the Ministry of Planning.

Source: CAPMAS, Statistical Yearbook, 1990-95, Cairo, July 1996, p. 288.

### ***Characteristics of the Unemployed***

This pace and pattern of job creation resulted in a steady rise in unemployment. Although the rate of unemployment is an important indicator of the economy's performance, equally important are the trends and characteristics of unemployment. We have established that open unemployment has risen steadily since the mid-1970s, but who are the unemployed?

The picture that emerges from Table 4, based on the May 1995 Labor Force Sample Survey, is very telling. First, unemployment peaked among the 15-25 age group (27.5 percent compared to a total average of 10.8 percent). At the same time, the average duration of unemployment is highest among youth, reaching 37, 64 and 67 months for the age groups 20-25, 25-30 and 30-40, respectively. Second, the incidence of unemployment is highest among first-time job seekers (95 percent), most of whom are in the 15 - 25 age group. Third, the relationship between unemployment and educational attainment appears to be negative as the incidence of unemployment is highest among those with intermediate education (33 percent are unemployed) followed by those with above intermediate education (19 percent) and university graduates (12 percent), compared to only 1 percent unemployment among illiterates. As Fergany puts it, "This pattern indicates negative labor market returns to education." Fourth, unemployment is higher among females than males especially in urban areas. Fifth, unemployment is higher in peripheral regions such as Western Lower Egypt and the Frontier Governorates.

These characteristics underscore the seriousness of the unemployment problem especially among the young, whose position in the labor market does not correspond to their rising expectations.

### ***Labor Income and Poverty***

To complete the picture, we must look at labor market outcomes in terms of incomes and returns to labor.

**Table 4. Characteristics of Unemployment, May 1995****A. Unemployment by gender and rural/urban residence (6 years and above)**

Item	Males			Females			Total		
	urban	rural	total	urban	rural	total	urban	rural	total
Unemployment (000s)	453	545	998	453	467	920	906	1,012	1,918
Unemployment rate (%)	7.5	7.0	7.2	27.5	20.7	23.6	11.7	10.1	10.8
First time job seekers (%)	88.3	97.2	93.2	96.2	99.6	98.0	92.3	98.3	95.5
Average duration of unemployment in months (12-64)									
<i>First Time Work-Seeker</i>	39.0	41.6	40.5	42.3	45.3	43.8	40.7	43.3	42.1
<i>Previously Employed</i>	20.9	21.5	21.0	22.0	28.3	22.6	21.2	22.3	21.4
<i>Total</i>	36.9	41.1	39.2	41.5	45.2	43.4	39.2	43.0	41.2

**B. Unemployment by age category, 1995**

Item	Age Category									
	6-	12-	15-	20-	25-	30-	40-	50-	60-	65+
Unemployment rate (%)	1.3	2	25.5	39.4	20.3	2.2	0.2	0.1	0.2	0.1
first-time job seekers/ unemployed (%)	**	80.0	97.3	97.8	95.3	85.0	19.0	**	**	**
Average duration of unemployment in months (12-64)	-	21.4	17.4	37.1	64.1	67.2	19.8	27.3	42.3	-

Note: \*\* the sample is less than 10  
- not available

**C. Unemployment by educational status (age bracket: 15-64)**

	Illiterate	Reads & Writes	Less than Intermediate	Intermediate	Advanced Intermediate	University & Higher
Unemployment rate (%)	0.4	0.6	2.8	33.3	19.4	11.8
Average duration of unemployment in months (12-64)	29.2	27.3	28.2	42.8	42.2	35.0

**D. Unemployment by region (age bracket: 15-64)**

	Greater Cairo	Other Major Cities	Eastern Lower Egypt	Central Lower Egypt	Western Lower Egypt	Northern Upper Egypt	Southern Upper Egypt	Frontier Governorate
Unemployment rate (%)	8.3	11.8	13.1	10.8	20.0	7.9	11.7	17.4

First, trends in real wages: in Egypt, wage labor represented 72.1 percent of urban employment in 1995; 42.9 percent of rural employment; and 55.5 percent of total employment. The movement in real wages is, therefore, a significant indicator of changes in income for a significant part of the labor force whose main source of income is labor. Table 5 and Figure 3 provide a dramatic picture of real wage trends in the different economic activities since the early 1980s. The wage increase that began by the mid-1970s, as a result of labor shortages, gave way to more than a decade of continuous decline in all economic activities without exception. Real wages in 1994/95 were only two-thirds of the 1985/86 wages in both public and private sectors alike. Average annual real wages for the private sector in 1991/92 amounted to 55.6 percent of the 1982/83 level (World Bank 1994, Table 23). As a result wage earners had to devise survival strategies to cope with declining real incomes by working several jobs and resorting to rent-seeking behavior. The fact remains that the decline in many people's main source of income has been devastating.

Data on poverty and income distribution are highly unreliable; however, *The 1995 Human Development Report for Egypt* shows that the "incidence of poverty at the national level has increased from 29 percent of the total population in 1981/82 to 35 percent in 1990/91, and indications are that it may be as high as 44 percent at present. This applies to both urban and rural areas, where the incidence of poverty increased from 30 percent and 28 percent, to 36 percent and 34 percent respectively (INP 1995, p.63)." *The 1996 Human Development Report for Egypt* shows that the incidence of poverty in 1995/96 was about 23 percent; however, if the 20 percent of the population living in so called 'mild poverty,' is added, the incidence of poverty increases to 44 percent (INP 1997). A World Bank report comes to a similar conclusion noting that, "In Egypt the proportion of the population under the poverty line (US\$ 30 a month per person in real dollars) increased by 30 percent between 1985 and 1990 and has likely continued to rise because labor demand has remained weak and consumption subsidies have been reduced (World Bank 1995)."



Beyond the academic debate over measuring poverty, two things are important for the policy maker: the *trends* and the *characteristics* of poverty. Evidence suggests that the poverty trend in Egypt is worsening. The 1995/96 Household Income and Expenditure Survey shows that average incomes and expenditures in real terms declined during the period 1990/91 to 1995/96, and average incomes declined by about 19 percent, while average expenditures declined by 23 percent (Fergany 1997).<sup>6</sup> This is further corroborated by data from national statistics which indicate that real per capita GDP in 1990 dollars has declined from US\$ 620 to US\$ 528 from 1990 to 1995 (Handoussa 1996, IMF).

Increasing poverty and eroding incomes have led to deepening inequality, with the share of income of the richest 20 percent of the population increasing from 42.3 percent in 1991 to 45.1 percent in 1993, while the share of the poorest 40 percent declined from 19.5 percent to 17.0 percent of income during the same period (INP 1996, p.63).

### ***Who Are the Poor?***

The social and economic characteristics of the poor have remained largely unchanged from 1990/91 to 1995/96. The 1995/96 Household Income and Expenditure Survey indicates the following: first, poverty is concentrated in rural areas and in Upper Egypt in particular; second, the incidence of poverty is highest among the illiterate, although it also exists among university graduates; third, poverty is highest among the unemployed and the self-employed; fourth, poverty is concentrated among the young and newly married (15-25 years) and the elderly (65 years +); and fifth, poverty increases with the number of children (members less than ten years old) in the household. This suggests that a growth strategy

6. As demonstrated in the following table:

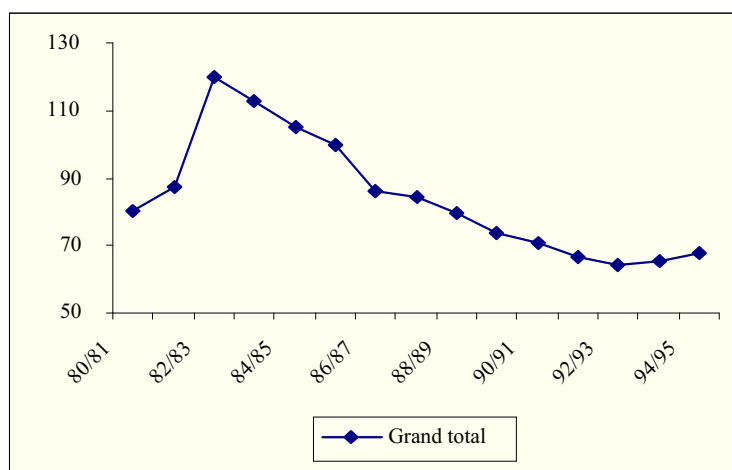
Geog. Dist.	Indicator	1990/91	1995/96		Change
			Current	Real (1990 Prices)	
All Egypt	Expenditure	5,295	6,659	4,070	-23.1%
	Income	5,709	7,570	4,626	-18.9%

**Table 5: Index of Real Wages\* (1985 = 100)**

Sector	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95
Agriculture	60.2	57.7	130.8	119.3	107.0	100.0	88.2	85.5	81.6	75.0	72.0	66.3	65.8	67.0	68.6
Industry	99.8	113.5	131.4	118.9	107.0	100.0	85.0	80.5	76.1	57.6	52.2	69.8	65.0	65.0	68.4
Petroleum	78.8	80.5	114.8	110.5	104.8	100.0	87.0	82.7	77.8	70.7	69.1	63.5	55.7	79.2	57.8
Electricity	69.2	69.3	97.6	98.9	100.1	100.0	84.2	79.4	75.9	69.8	68.8	67.9	66.0	66.2	67.6
Housing & Construction	64.4	62.1	135.3	121.4	107.9	100.0	85.0	80.1	75.4	82.1	77.1	70.2	65.8	63.2	63.3
Transportation & Comm.	60.2	84.4	122.7	113.9	104.5	100.0	86.5	81.5	77.8	89.2	85.8	77.7	58.4	55.9	55.2
Finance & Trade	98.7	96.7	124.8	114.7	104.2	100.0	87.0	89.6	84.2	81.3	79.4	73.6	68.9	69.2	70.9
Other Services	82.3	130.7	110.8	108.8	104.8	100.0	85.0	82.4	76.6	68.6	66.3	55.8	57.3	58.2	62.0
Grand Total	80.4	87.4	120.0	113.0	104.9	100.0	86.4	84.3	79.7	73.6	70.9	66.4	64.4	65.3	67.8

\*Real Wage Index = average annual wage per employee/consumer price index.

Source: Based on data from CAPMAS.

**Figure 3. Index of Real Wages**

focusing on the quality and intensity of employment will alleviate poverty. Efforts at human capital formation and accumulation through reform of the formal education system and promotion of training and retraining programs would increase the returns to the poor by providing them with the necessary education and skills, and hence the opportunities for productive and remunerative employment.

### **3. Explaining the Trends in and Patterns of Employment and Unemployment**

In examining the evolution of employment and labor markets in Egypt over the last four decades, the picture that emerges is far too complex for simple theoretical reductions. In general, the literature on employment policies has lagged far behind the evolution of thought on macroeconomic issues. Most of the post-Keynesian debate has focused on wage determination or on the different factors that influence labor market behavior.<sup>7</sup> In this respect, the recent discussion emphasized the polarization of the ‘distortionist’ and the ‘institutionalist’ schools. The ‘distortionists’ regard regulation of the labor market as intervention detrimental to efficiency, while the ‘institutionalists’ argue that labor markets are more flexible and that a measure of regulation is necessary for an equitable labor market.

Both views over simplify the case. The objective of economic policy is to create the conditions necessary to sustain a level of aggregate demand and guarantee maximum employment based on a given rate of investment at a tolerable rate of inflation. Within this framework, regulations should be kept to the minimum necessary to compensate for market failure and to guarantee broad-based access to factor and commodity markets. Macroeconomic policy should be concerned with sustaining a rate of growth sufficient to increase aggregate demand; sectoral policies should guarantee the allocation of investment to sectors with higher labor demand; and the incentive system should rely on a set of

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7. For a good survey, see Richard B. Freeman, “Labor Market Institutions and Policies: Help or Hindrance to Economic Development?” in *Proceedings of the World Bank Annual Conference on Development Economics, 1992*, Washington,

strategic prices that reflect market realities and can thus achieve the efficient allocation of resources.

Given this perspective, how should the Egyptian labor experience be interpreted? This paper contends that it is the combination of three major factors that determines employment performance: the rate of GDP growth, the management of labor demand, and the extent of labor market flexibility or regulation. Additionally, employment creation is the most effective mechanism of income redistribution. Based on this perspective we must examine the three sub-periods identified in the previous section.

The near 'full employment' situation in the 1960s can be explained in terms of a high rate of growth (6 percent on average per year); a tremendous upsurge in labor demand as a result mainly of public investment; and tight regulation of the labor market through the employment guarantee scheme on the one hand and a low wage-inflation regime on the other. This system was not sustainable once the state's capacity to finance investment, especially through foreign exchange, was largely curtailed.

The decade of 1975-85 may best be described as one of 'jobless growth,' as unprecedented high rates of growth (8 percent on average per year) were associated with rising open unemployment, despite the fact that emigration accounted for some 10 to 15 percent of the labor force. This paradox was due to the failure to use the massive flow of resources to increase investment in the employment-intensive sectors of the economy and because the a sound employment policy as "an insurance policy for the future" was not developed (Hansen and Radwan 1982).

A number of lessons can be drawn from the experience of this period. First, growth of GDP is certainly a necessary but, by no means, a sufficient condition for increased employment. The employment intensity of growth is equally important. Macroeconomic policies to ensure higher growth of output must be complimented by a sectoral policy to maximize labor demand. Second, the danger of excessive reliance on external resources,

especially those over which the country has little control, is twofold: the temptation to neglect the contribution of domestic savings and the tendency to direct most investments to short-term, high-return activities which are not necessarily employment intensive. Third, if growth takes place in an environment where the relative roles of the state and the market are ambiguous and the private sector is over regulated, growth may be curtailed, rent-seeking behavior may begin and capital flight from the private sector may ensue.

The 1985-95 period, as noted earlier, was one of slow growth and high unemployment. Clearly the stagnation in output growth, coupled with the decline in emigration, largely explain this. It is also be argued that despite the turnaround in growth since 1993, the labor markets have not responded positively due to over-regulation.<sup>8</sup> However, this argument is exaggerated. Evidence suggests that labor markets in Egypt have been fairly flexible during this period. Real wages in all sectors of the economy declined over the last decade (see Figure 3), and the decline in private sector wages was greater than that of the public sector (World Bank 1994, Table 21). Moreover, if we look at the manufacturing sector, where private sector growth was notable, we find that the growth of real earnings was much less than that of value added and productivity (see Table 6 and Figure 4).<sup>9</sup>

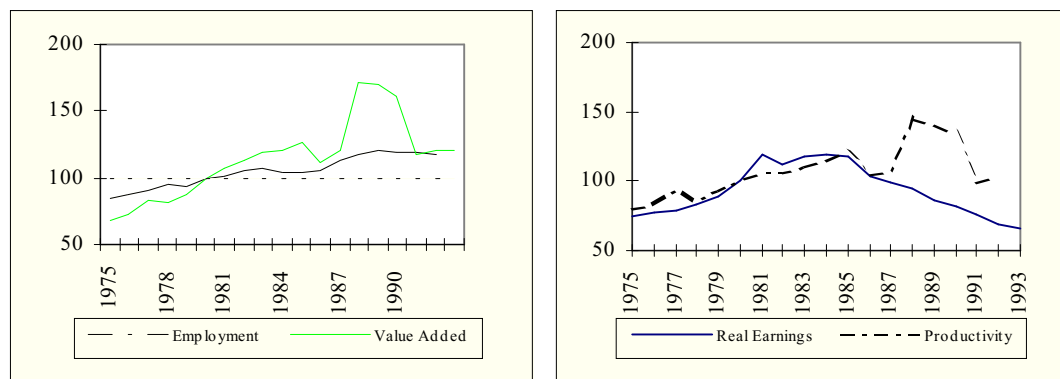
We must seek an explanation that goes beyond the ‘deregulation argument.’ Rising unemployment in the 1990s is primarily due to slow growth and inadequate investment. This is not to deny the importance of an enabling environment that encourages foreign and domestic investment; the legal framework are preconditions for future growth. The private sector in general, and small and medium-size enterprise in particular, is indeed burdened by many regulations that hamper growth. But the lack of employment growth is not primarily

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8. See for instance, World Bank, *Will Arab Workers Prosper?*, op. cit., pp. 5-7. For a good summary of the debate on labor market regulation see Richard B. Freeman, “Labor Market Institutions and Policies: Help or Hindrance to Economic Development,” World Bank Annual Conference on Development Economics, 1992, Washington, March 1993, pp. 117-144.

9. The same point is made in *Egypt: Economic Profile*, op. cit., pp. 43-45.

**Figure 4. Manufacturing Employment, Value Added, Real Earnings and Productivity 1975 to 1993 (1980=100)**



Trends are calculated from constant national currency.

Productivity is defined as value added in constant national prices divided by employment.

Employment is defined as number of employees and comes from UNIDO Industrial Statistics, 1995.

Source: UNIDO, *Industrial Statistics*, 1996.

**Table 6. Manufacturing Employment, Value Added, Real Earnings and Productivity, 1975 to 1993 (1980 = 100)**

Year	Employment	Value Added	Real Earnings	Productivity
1975	84.28	68.18	74.90	80.90
1976	86.92	72.33	77.98	83.21
1977	89.89	83.51	79.17	92.90
1978	95.00	82.03	82.96	86.34
1979	92.96	86.75	88.52	93.32
1980	100.00	100.00	100.00	100.00
1981	100.88	107.00	118.71	106.07
1982	105.20	112.50	111.38	106.94
1983	107.73	119.28	117.81	110.72
1984	104.04	120.12	119.00	115.45
1985	104.50	126.38	117.24	120.94
1986	105.26	111.06	103.04	105.51
1987	112.58	120.25	99.22	106.82
1988	117.44	171.16	94.45	145.74
1989	121.08	169.84	86.70	140.27
1990	118.35	160.40	82.00	135.52
1991	119.60	117.64	75.89	98.36
1992	116.87	120.74	69.08	103.31
1993	..	120.44	65.62	..

\*Trends are calculated from constant national currency.

\*\*Productivity is defined as value added in constant national prices divided by employment.

\*\*Employment is defined as number of employees and comes from UNIDO Industrial Statistics 1995

due to labor market regulation, and, therefore reversible through deregulation, but rather due to the fact that growth and investment did not create effective demand corresponding to ‘warranted’ full employment level. The policy objective must therefore be the resumption of growth based on reform of labor market policies and institutions.

The question remains: with the favorable macroeconomic situation and the reversal of slow growth, what is the next step?

#### **4. Looking to the Future: The High Road to Growth**

The relative success of the stabilization programs and the positive turnaround in growth since the early 1990s are Egypt’s ‘launching pad’ for takeoff provided the right policies are pursued. Like most developing countries, Egypt does not have a systematic strategy for job creation. Policies often focus on investment with the assumption that employment will automatically follow. A major challenge is designing a coherent strategy with the explicit objective of maximizing the employment content (elasticity) of growth and ensuring access to productive employment opportunities for the poor. Thus an employment-intensive growth strategy to achieve full employment in the medium- to long-term is essential. To this end, employment creation is the most effective mechanism for achieving equity.

Critics may say that such an objective is unrealistic for a developing country like Egypt where the majority of workers are engaged in low-productivity work. But as the ILO’s *World Employment Report* argues, “the fact that full employment has to be interpreted as a long-term goal does not detract from its usefulness as a policy objective. There are three reasons for this. First, it focuses clearly on the two key dimensions of the employment problem that must be tackled in tandem, that is, to accelerate the rate of job creation in the modern sector while increasing employment opportunities, productivity and income in rural and informal sector activities. Second, the focus on these two dimensions of the employment problem is a powerful strategy for achieving equitable growth. Expanding

productive employment opportunities for the poor is the most effective means of reducing poverty and income inequality. Third, the objective of full employment incorporates the need to improve employment conditions and eliminate violations of basic labor standards as an integral part of overall employment policy (ILO 1996/97, p.141).” Although the full employment goal is long term, “being a long-term objective does not mean that it cannot be translated into a series of interim short-term objectives against which progress can be measured (ILO 1996/97, p.142).”<sup>10</sup> The question is, what are the features of the strategy?

### ***Sustained Growth***

Sustained growth can be achieved through deepening macroeconomic stability and increasing investment. The government’s policy framework, “*Egypt and the 21<sup>st</sup> Century*,” seeks to double the national income every ten years over the next two decades by raising real GDP growth from 4.8 percent at present to 6.8 percent over the next five years (1997-2002) and to 7.6 percent until the year 2017 (Cabinet of Ministers 1997, p.65). This will require an annual investment of LE 100 billion, or 25 percent of GDP per year over the next 20 years. The objective is to create about 550,000 jobs a year by the year 2002 while maintaining an employment rate of 97 to 98 (Cabinet of Ministers 1997).

Can these goals be achieved? The World Bank has estimated the employment outcomes of three growth scenarios for the year 2002 (see Table 7). These estimates show that Egypt can reduce unemployment to less than 7 percent with GDP growth of 6 percent a year from now until the year 2002. Otherwise, with 2 percent GDP growth a year, Egypt will have an unemployment rate of 20 percent by 2002 (World Bank 1997). Preliminary estimates of employment elasticity, using the World Bank base-case (most likely) projection for value added growth, support the Bank’s conclusions. The *Country Forecast* for the first quarter of 1997 by the Economist Intelligence Unit, predicts that between 1997 and the year 2001,

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10. See Mead, *Full Employment Regained?*, Cambridge, 1996; Tobin, *Full Employment and Growth*, Edward Elgar,



**Table 7. Growth and Employment**

	1995	1997	2002
Unemployment (%)	9.6	..	..
At 2% GDP Growth	..	11.0	20.0
At 4% GDP Growth	..	10.3	14.0
At 6% GDP Growth	..	9.0	6.4

Key assumptions: population growth rate of 2.1 percent p.a.; labor force growth of 2.8 percent p.a.; and a participation rate of 47.2 percent.

Source: Arab Republic of Egypt Country Economic Memorandum, "Egypt: Issues in Sustaining Economic Growth," Main Report, World Bank Report No. 16207-EGT, Volume II, World Bank, 1997, p. 2.

higher foreign and domestic investment will help to fuel real GDP growth rates of around 4.5 to 5.0 percent per year (EIU 1997, p.3).

There is a general consensus that the objective of a 6 percent growth rate over the next five years is attainable and will significantly reduce unemployment. To attain this level of growth, Egypt must raise the gross investment rate from the current 20 percent of GDP to 26 percent; raise the level of domestic savings from 17 percent to 28 percent; and continue the relative price reform in order to provide a rational incentive system. It has been said that even with these reforms there will remain a savings-investment gap of about 10 percent of GDP that must be provided by external resource flows of some US\$ 7 billion a year (Mohie El-Din 1996). This raises the issue of improved export performance and the need to attract more foreign direct investment.

The challenge of achieving high growth can be gauged by comparing the performance indicators for Egypt with those of the rapidly growing economies in Asia and Latin America (see Table 8). Galal and Hoekman have argued that for Egypt to achieve rapid growth, reform should take place on three fronts: increasing the openness of the economy; reducing the regulation of the factor and commodity markets; and increasing the role of the private sector relative to that of the state. The task is daunting, but not impossible.

**Table 8. Selected Indicators of Egypt and FastGrowing Economies (Percent of GDP)**

Country	Gross domestic savings 1993	Government spending 1995	Average tariff rate 1993 <sup>1</sup>	Growth of manufactured exports 1985-92	Change in trade to GDP ratio 1980-83 to 1990-93	Average share of SOEs/GDP 1978-91
Chile	24.0	20.8	9.5	26.3	1.0	12.0
Hong Kong	31.0	16.6	0.0	21.4	19.1	N/A.
Indonesia	31.0	17.1	5.0	33.2	-1.4	13.0
Korea	35.0	20.3	4.0	14.1	1.4	10.2
Malaysia	28.0	30.6	6.0	29.2	5.7	N/A.
Singapore	47.0	20.4	0.4	20.2	11.1	N/A.
Thailand	36.0	22.1	9.0	33.7	3.3	5.4
Egypt	18.0 <sup>2</sup>	36.5	15.0	1.0 <sup>3</sup>	-1-9	32.8

Notes: <sup>1</sup>These are calculated as collected taxes on trade as a share of total merchandise imports.

<sup>2</sup>Gross national savings for 1993, estimated by the World Bank. Gross domestic savings were only 6 percent of GDP.

<sup>3</sup>Annual average growth over the period 1986-1994.

Sources: Ahmed Galal and Bernard Hoekman, *Egypt and the Partnership Agreement with the EU: The Road to Maximum Benefits* ,

Jeffrey Sachs argues that by starting from the favorable initial conditions now, and realizing levels of savings, investment and market efficiency similar to those of the fast-growing economies of South and Southeast Asia, Egypt can achieve 6.3 percent growth, thus gaining a 2.0 to 3.7 percent higher rate of GDP growth per year (Sachs 1996, p.23).<sup>11</sup> According to Sachs, “The biggest problem with the recent strategy has been an excessive focus on stabilization and little emphasis on long-term growth (Sachs 1996, p.25).”

### ***Higher Employment Intensity of Growth***

A long-term growth strategy must emphasize employment intensity of growth as well as the rate of growth. This is particularly important for the equality of distribution, because the higher the level of employment, the higher the share of labor incomes in the output.<sup>12</sup> The experiences of fast growing economies in South and Southeast Asia have shown this

11. The countries by Sachs are: Korea, Taiwan, Thailand, Philippines, Indonesia, Malaysia and Hong Kong.

(World Bank). The so-called ‘Asian Miracle’ was achieved through a sustained and rapid increase in total output, as well as productivity, which generated a high aggregate demand for labor, with real labor income growing at a rate lower than that of productivity, thus maintaining a high level of domestic savings.

Increasing the labor intensity of growth raises three issues: the optimum sectoral mix; the roles of private and public investments; and enabling trade and labor market policies. The key to Egypt’s future employment strategy is thus to achieve a high rate of employment creation in a fast-growing modern sector. Making the case for such a strategy, *The World Employment Report* argues, “This will allow a growing proportion of the labor force to obtain the higher productivity and ‘good jobs’ that they aspire to. Without this there will be a crowding of new entrants into low-productivity employment in the rural and urban informal sectors, a process that is likely to depress incomes even further and hence aggravate poverty. This must be complemented by a range of measures to alleviate poverty and raise productivity and incomes in the rural and informal sectors” (ILO 1996, p.139).

Evidence suggests that such a strategy is viable. Table 9 estimates employment elasticity in the different sectors. Although these are not definitive, it is clear that the elasticity of employment in manufacturing and industry is higher than the national average. A similar situation prevails in the service sector. This is not to suggest neglecting sectors like agriculture, which has a lower elasticity, but rather a focus on manufacturing and services to facilitate employment creation. However, a caveat is necessary: the data are too aggregated for a detailed estimate of intensity within the sector. Evidence suggests that small and medium-size enterprises are responsible for the apparently high employment elasticity in the industry and service sectors.

The implications for policy are clear: both large and small enterprises should be targeted for encouragement. Small and medium-size enterprises have tremendous potential for growth particularly in activities catering to the domestic market.

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12. For an authoritative view on this see James Mead, *Full Employment Regained?*, Cambridge, 1996.

**Table 9. Elasticity of Employment by Sector, 1983-1995, %**

	Elasticity of employment 1983-1995		
	<i>Employment growth</i>	<i>Output growth</i>	<i>Elasticity</i>
Total	1.84	2.99	0.61
Agriculture	0.84	1.65	0.51
Industry	2.68	3.63	0.74
<i>Manufacturing and mining</i>	2.13	3.45	0.62
<i>Electricity, gas and water</i>	4.40	12.71	0.35
<i>Construction</i>	3.85	2.54	1.51
Services	2.28	3.08	0.74
<i>Finance and trade</i>	4.01	2.28	1.76
<i>Transport and communication</i>	3.96	3.51	1.13
<i>Community, social &amp; personal services</i>	1.30	3.10	0.42

Note: Elasticity is defined as employment growth divided by output growth.

Sources: CAPMAS, *Statistical Yearbook 1990-1995*, July 1996 and

World Bank, *Country Economic Memorandum*, Feb. 1990; Data for employment provided by N. Fergany.

Despite a consensus among policy makers on the importance of this sector, the obstacles to its growth are formidable, particularly providing credit, the constraining regulatory framework and the lack of technical assistance in the fields of technology and marketing.

Ensuring high employment intensity of growth in the modern sector will require deepening industrialization especially for exports. Experience indicates that import-substitution industrialization has generally encouraged relatively capital-intensive industries and cheapened capital. Labor market policies with too many regulations may have pushed up labor cost relative to productivity and made adjustment in labor cost difficult. The combination of these policies had the effect of raising the relative price of labor vis-à-vis capital and lowered the employment intensity of growth in the modern sector. In contrast, East Asian countries pursuing export-oriented industrialization succeeded in generating modern sector employment at a rapid rate. If past experience is an indicator, it can be said that export-oriented industrialization and flexible labor markets

that do not undermine labor welfare help to create the conditions necessary for employment-intensive growth.

For such a strategy to succeed, Egypt must have a competitive edge that enables its exports to compete on world markets. There are indications that the country's competitive position is promising; *The World Competitiveness Report* included Egypt for the second year running (World Economic Forum 1996). Out of 49 countries, Egypt ranked 27th in 1995 and slipped to 29th in 1996. The report ranks countries according to their score in eight areas: openness, government, finance, infrastructure, technology, management, labor and civil institutions. The results for Egypt are presented in Table 10. It is striking to note that Egypt's lowest score is in labor (40 out of 49) and particularly in terms of the skill of the labor force (41 out of 49). This points to the urgent need for intensifying education reform and introducing a labor market policy for training and retraining the labor force.<sup>13</sup>

#### **The Skilling of the Labor Force**

If Egypt is to take the high road to growth by boosting its GDP growth rates to over the coming five years, then it must begin earnestly reforming its formal education and training systems. A nation's productive capacity is dependent on its human capital and education is the most important means for developing a skilled labor force.

Educational attainment is low and Egypt is struggling with illiteracy rate of nearly 50 percent (UNDP 1997). The quality of skill is poor despite the needs of the modern market. Despite increased spending on education and efforts to reform the basic education system (UNDP and UNESCO 1996), there is still much to be accomplished. It is therefore essential that efforts at basic education reform be intensified, and that a comprehensive and long-term approach be adopted. This involves raising educational attainment to at least

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13. For an excellent study of the quality of education in Egypt, see Nader Fergany, "The Challenge for the 21st Century for Egypt: Education and Labor," *Almishkat*, Cairo, September 1996 (Arabic). Fergany offers two significant indicators of education status: average number of completed years (3 in Egypt compared to 4.2 for developing countries; 9.3 Korea, 10.2 Israel and 11.6 Switzerland), and expenditure on education per head in education age (US\$ 117 for Egypt compared to US\$ 215 for developing countries; US\$ 816 Korea; US\$ 2,471 Israel; US\$ 10,837 Switzerland). *Ibid.*, p. 10.

**Table 10. EGYPT: COMPETITIVENESS PROFILE****Overall Ranking: 29***Openness: 21*

44	Exchange rate
46	International trade
29	Receptivity to foreign investment
24	Openness of financial markets

*Government: 30*

42	Size of government
23	Fiscal policy and savings
30	Taxation
31	Economic intervention
28	Bureaucracy

*Finance: 36*

48	Financial depth
33	Efficiency of financial intervention
38	Risk and financial stability
31	Savings and investment

*Infrastructure: 29*

45	Transportation
45	Telecommunications
19	Power and other infrastructure

*Technology: 24*

32	Knowledge workers
33	Research and development
19	Computer use
24	Level of technology

*Management: 23*

22	Entrepreneurship
30	Strategy
29	Customer orientation
31	Quality control
14	Managerial resources

*Labor: 40*

28	Labor force
41	Availability of basic skills
37	Cost of labor
6	Labor market regulations
19	Industrial relations

*Civil institutions: 24*

22	Rule of law
31	Property rights

**KEY FACTS**

GDP: US\$ 58 billion

Per capita GDP: US\$ 979

World output share: 0.2%

World export market share: 0.2%

**ECONOMIC PERFORMANCE**

Real GDP growth (1995): 3.2%

Real export growth (1995): 11.0%

Inward FDI, share of GDP (1994)  
1.0%

Inflation (1995): 7.5%

Unemployment (1995): 10.7%

Source: World Economic Forum, *The Global Competitiveness Report, 1996*, Geneva, Switzerland, 1996, p. 66.

six grades per person; increasing current expenditure on education per capita in the education age group (6 - 21) to comparable international norms; improving the quality of education to encourage self-learning and creativity; and ensuring the provision of skills and knowledge that cater adequately to the needs of the labor market (Fergany 1994). The investments required to achieve these targets may indeed be staggering, but it is only through provisioning for a comprehensive educational reform that Egypt can rely on an adequate stock of human capital to buttress its economic growth and advancement in the 21<sup>st</sup> century.

The current training system in Egypt is beset by several problems compromising its efficiency and effectiveness. Shortages of qualified teachers and instructors; outdated programs, curricula and teaching methods; lack of flexibility; and an inability to adjust in the face of new technological developments, new occupations, and changing occupation and job profiles are just some of the problems (ILO 1991). Reform is therefore necessary to strengthen the training system in Egypt and promote continuous education and upgrading of skills to enhance Egypt's competitiveness on world markets. The proposed policy has four features:

- (a) *Expanding the scope of training strategies and programs*, to include sectors and subsectors with high employment potential such as commerce, services and tourism.
- (b) *Deepening the scope of training strategies and programs*, to include training in skills demanded by the labor market, particularly in advanced technology and quantitative skills, and in response to the demands of privatization and globalization. The traditional apprenticeship system could exist alongside accelerated training.
- (c) *Financing training programs*, must be met by the main beneficiaries of the training, namely employers in the public and private sectors. It is proposed that a training fund be established and made up of 1 to 2 percent of total wages of companies subscribing to the scheme. The fund should be administered according to performance and must focus

on in-house training programs, skill upgrading, retraining initiatives and overseas training. Such a fund and vocational training schemes should be controlled by the employers, the immediate beneficiaries, or a tripartite board (government, employers, and workers unions). In Egypt, there is a strong case for the tripartite option, with greater employer representation and less government involvement. The fund must be managed efficiently and effectively to ensure that corruption and favoritism do not occur.

(d) *Coordinating training strategies and programs.* Given the call for an expanded scope and role of training and retraining in Egypt, it is essential that a single entity or board be entrusted with streamlining and coordinating different training strategies and programs. The proposed board should be presided over by a minister who is involved with the employers in the public and private sector. The board shall be entrusted with examining and evaluating technical proposals and research initiatives; streamlining and coordinating programs among the different training agencies; ensuring the quality of training programs and their responsiveness to the labor market demands; and establishing unified codes and testing standards for training programs. This structure will reform the government's role as the initiator and implementer of economic policy and action (Kanawaty 1997).

### ***The Role of Public Policy***

Besides the primary responsibility of designing and implementing coherent macroeconomic policies, the government must create an enabling environment. Although increased government intervention is not sound, there is a role to be played by a 'developmental state' in at least three areas: investing in human capital, deepening institutional reform, and creating complementarity between public and private investment.

***Investing in Human Capital.*** It has been established that Egypt's competitive edge is undermined by the relatively low skill level of its labor force, and that the educational attainment of the population is poor. Despite an increased budget for the Ministry of



Education in recent years, human capital formation requires much more investment. There is a need to increase spending on health and education and to create a pro-active culture through training and retraining in the coming century.

***Deepening Institutional Reform.*** Reforming the legal framework and the labor market institutions will require a tremendous effort. The labor code must respond to the new realities. Labor exchanges should be overhauled and staffed by young graduates trained in labor market issues. Finally, excessive bureaucracy surrounding licensing and travel for work should be eliminated. This will require thorough reform of public service- a daunting task. But a practical approach to the problem is to gradually phase out the inefficient parts of the bureaucracy and recruit university graduates at a higher salary. If the public sector is reduced by half it may be feasible to double the salaries of remaining employees.

***Creating Complementarity Between Public and Private Investment.*** The state can also play an important role through public investment. Public investment, especially in infrastructure, has a 'crowding-in' effect on private investment. Keith Griffin argues that "many types of public expenditure are likely to be complementary to private sector investment. This is likely to be true of public investment in rural and urban infrastructure (transport, power, water, and sewerage facilities) and of public expenditure on several kinds of human capital investment (primary and secondary education, certain types of vocational training, basic health and nutrition, applied agricultural research). Expenditure in these areas can increase investment opportunities in the private sector and raise, not lower, private sector 'savings,' That is to say, public investment can increase the profitability of private investment which, will in turn increase private savings and domestic resource mobilization more generally. (Griffin 1996)"

***Large-Scale Development Projects.*** It is interesting to note that the centerpiece of the government's plan for the 21st century is a massive investment program to increase arable land by launching two land reclamation projects, one in Sinai and the other in Upper Egypt

(Cabinet of Ministers 1997, Part III). It is beyond the scope of this paper to discuss the pros and cons of such a plan, which has been the subject of a vivid public debate,<sup>14</sup> but it is important to note that true to its tradition, the Egyptian state's vision of the future is to expand the cultivable frontier (as when Mohammed Ali built the Delta Barrage; the British built the Aswan Barrage; and Nasser built the High Dam). The objective of adding 8 million feddans to the cultivable land by the year 2017 and creating 18 new cities to ease the population pressure in the Old Valley may be too ambitious. But even with more scaled-down objectives, the move is in the right direction.

The point to be emphasized, however, is that the employment impact of the large-scale projects in Sinai and the New Valley must be carefully studied. Whichever model is chosen, these programs should provide an opportunity for broad-based development by involving more people, especially youth, rather than concentrating the returns in few hands. In this respect, a new employment program for graduates should be launched in these areas. Graduates should be given small plots of land for cultivation or loans to start their own business in the new areas. Thus, a higher employment intensity and better income distribution can be achieved through these huge governmental investments.

## **5. Conclusion**

Egypt is at a crossroads, and sound choices must be made. The country must build upon the success of stabilization and the resumption of economic growth. Entering the 21<sup>st</sup> century, Egypt must take the 'high road to growth' with the objective of achieving full employment. This paper outlines an employment-intensive growth strategy based on sustained and rapid growth with distribution and points to the necessary conditions to implement such a strategy.

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14. For a critical view see Rushdi Said, *Al-Mussawar*, 24 January, 31 January and 7 February 1997; and Andrew Dowell, "The 'New' New Valley," *Business Monthly*, American Chamber of Commerce in Egypt, March 1997, pp. 27-31.

Because this paper focuses on developing a policy framework, other issues are not addressed. However, the discussion is not complete without highlighting a crucial precondition for the success of the proposed strategy: political economy of change. The economic history of industrialized countries and the NIC's suggests that two preconditions are essential for takeoff:

First, a vigorous and determined attack on the obstacles that block initiatives and lower efficiency and productivity. These obstacles are well known, but a rational approach to dealing with them has yet to be developed. In a study based on interviews with 45 establishments, Galal determined that lack of stable government policies, as well as lack of policy continuity, and the obstacles in the areas of taxation, finance and labor legislation, discourage potential investors and are thus detrimental to growth (Galal 1996; World Bank 1994). Good intentions are not sufficient to deal with corruption and bureaucracy. What is needed is an institutional arrangement and a sound incentive system that contribute to a pro-growth environment.

Secondly, a culture of inclusion, not exclusion, is necessary to mobilize the population for the tasks ahead. The results of exclusion are only too obvious, and we must not forget that 'poverty anywhere is a threat to prosperity everywhere.' Having a job is one of the most effective means for inclusion. The fight against poverty and exclusion will succeed only through the creation of alliances among those with the foresight to realize that inclusion is worthwhile not only on moral grounds, but also for Egypt's economic survival.

These are the challenges that face Egypt on the verge of the 21<sup>st</sup> century. The country which, in the words of Sindbad, perfected the craft of civilization-building through its long history, is capable of embarking on a new phase: a modern civilization based on growth with equity.

## PART II

### TOWARDS FULL EMPLOYMENT:

#### DISCUSSION

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After his presentation, Dr. Radwan responded to remarks and questions from the audience. Due to limited time not all questions were addressed; we have made an attempt to remedy this by providing additional responses in this discussion. Participants in the discussion included Former Prime Ministers Dr. Ali Lofty and Dr. Abdel Aziz Hegazy; Dr. Ali Soliman representing the government; Dr. Galal Amin from academia; and Dr. Thomas Scheben from the Konrad Adenauer Foundation. (See appendix for a complete list of those in attendance.) The following is a summary of the discussion.

**Participant:** Dr. Radwan showed us through his diagram the evolution of unemployment since the 1960s. Apparently, the unemployment rate declined in the earlier period, which is true. But we must ask why and what is the result? I think this occurred because at the time the government provided jobs. This is a dangerous policy because it created the greater problem of disguised unemployment, that is over employment in the government and public sector.

When we discuss the problem of unemployment we must consider the economic and social effects, which I believe are more significant in Egypt than in other countries, because we lack a system of insurance against unemployment. According to the new plan, it costs LE 103,000 to create one new job. This is a huge investment and is one of the main problems of the unemployment dilemma in Egypt. Finally, if we look at the classification of the unemployed according to their degree of education, the statistics show that the majority of the unemployed graduated from technical, commercial, industrial or agricultural schools. We need technicians, and yet the unemployed are, at least in theory, technically educated.

**Speaker:** The capital/labor issue is a very important one. What has been neglected in Egypt is the suitable size of enterprise. There are two important elements: the legal framework and the responsiveness of the credit system. The two act against the growth of small- and medium-size enterprise. You can reduce the capital/labor ratio by focusing more on small- and medium-scale enterprise.

Concerning the paradox of the high demand for technicians existing side by side with high unemployment among the graduates of technical schools, the explanation is very simple. Those graduates do not possess the required skills. Their education is mainly theoretical, and therefore enterprises prefer to employ uneducated workers who have been trained on the job rather than opting for the more expensive graduates of technical schools. What is required is a thorough revision of the curriculum and examination system in technical schools as part of the educational reform required for the system as a whole

**Participant:** I am dissatisfied with the questions you tried to answer. First, what is the unemployment rate? The World Bank and the US Embassy say unemployment in Egypt is 20 percent, now you say that the corrected figure is 13.2 percent. You emphasized that instead of the 500,000 to 600,000 jobs that have been the goal, only 300,000 have been added a year. How did unemployment suddenly fall from 20 percent? Nothing has happened in the last ten years to reduce unemployment.

Figures say that since the Open Door policies began, the unemployment rate rose from 7 percent in the mid-1970s to 14 percent in the mid-1980s, in spite of the unprecedented migration abroad. So it is not a case in which things were healthy in the 1980s and have suddenly deteriorated; the migration phenomenon was an interruption which served to disguise what has been ongoing for the past 25 years. As the previous participant said, the full employment of the 1960s was due to the government's role providing public sector employment. Now the government is less involved so unemployment has risen. Another explanation is structural adjustment, and the government reduction of spending on

education and health, which creates unemployment. So what we call a success is the very cause of failure.

It is not an explanation to say unemployment has risen because labor intensity of investment was low. I believe that the presentation relied too heavily on figures and tables which can divert us from the real issues. One of your tables showed that growth is the necessary and sufficient condition for solving unemployment, but that is not so. The experiences of many countries show that growth does not solve unemployment.

**Speaker:** Concerning the different estimates of unemployment, whether it is 20 percent or 13.2 percent, as I explained in my presentation, depends on the definition used. The figure of 20 percent ascribed to the World Bank and USAID is based on a survey of private business in Egypt and therefore may over estimate the incidence of unemployment. The figure of 13.2 percent which the ILO presents is based on the international definition. Be that as it may, the major problem is that the economy generates less than 300,000 jobs a year, while the labor markets receive 500,000 to 600,000 new entrants every year. The question is, how can the economy produce sufficient jobs to absorb the newcomers to the labor market, let alone absorbing the backlog of the unemployed?

What system is best at creating employment? There is no denying that during the 1960s something closer to full employment was achieved. But how and at what cost? Some of us are arguing that job creation was due to government investment; the government was the main employer. But by the beginning of the 1970s, the government was no longer able to finance this type of economy. The 'solution,' a temporary solution, was to send millions of Egyptians to work in Saudi Arabia and the gulf states. The challenge is to introduce an economic policy which puts the Egyptian economy on the road to sustainable job creation, bearing in mind that the government is no longer the main actor and the market has to play the major role. In this lecture I have tried to provide the broad outlines of such a policy approach.

**Participant:** I agree fully with Dr. Radwan about the importance of stable policies. Since the 1952 Revolution there has been little policy stability. If you follow the history of the Egyptian economy, you will find that nearly every seven years there was a change in policy from ‘Egyptianization’, socialization, war economy and to liberalization. There was a lot of unfinished business, and we are currently witnessing the effects of these rapid policy changes.

Dr. Galal Amin has been criticizing the Open Door policy. I think the Open Door policy was very limited in implementation. Moreover I would say that the liberal policy we have now is not as liberal as it should be. For example, in 1975, there were 1.5 million civil servants; there are now 5.5 million. How can we redirect the civil servants? This is one of the main challenges to development.

Again, in the years from 1975 to 1995, total investment transfers from Egyptians, Arabs and foreigners were approximately LE 25 billion, and there was LE 25 billion in credit from banks. So there was a total of LE 50 billion for investment. To create employment, we need investment, and first we need savings. How can we enter the 21<sup>st</sup> century and what actions can we take?

Secondly, I do not believe that we have accurate statistics and there is no consistency in the recorded rate of unemployment.

Thirdly, in a Socialist state what is the cost of disguised unemployment? How much will it cost to privatize and liberalize the Egyptian economy, or at least to provide unemployment insurance? I believe that the cost of disguised unemployment up to 1975 was far less than what the government will spend to carry out privatization and liberalize policies.

And finally, everybody is talking about exports. How much is Egypt exporting and how much is coming from the productive sector, compared with the emerging markets of Singapore, Malaysia, Korea? In 25 years of liberal policies our export volume was low. You

need investment, employment and increased exports.

**Speaker:** This is a very important question: what is the trade off? Do you keep people employed by the government or do you introduce unemployment insurance? The problem with unemployment insurance is that it is very costly and may encourage workers to choose unemployment rather than seek work. For example, the Swedish model, where unemployed workers are assured of a decent income, was counter-productive as it resulted in a swelling of the ranks of those who prefer to be unemployed. The best system is one of social security pensions in which the business and workers contribute to hedge against illness, unemployment, and eventually, retirement. It would be better to use the money that goes to unemployment insurance to generate jobs and absorb the majority of people, rather than develop a heavy system of insurance.

How do we redirect civil servants? What is the incentive for those 5 million people to move out of civil service? There is no incentive; they have an insurance policy staying in government with a guaranteed salary. Egypt does not currently have an active labor market policy. By that I mean the development of labor market institutions such as employment services that try to bring together the demand and supply of labor. More important is the whole issue of training and retraining. In a rapidly changing world, with the technological advances we are witnessing, the old systems of work organizations are out of date. Workers need to be trained to deal with new technology and retrained to cope with the change in the production process as well as sectoral shifts that are taking place.

**Participant:** What is your point of view on the proliferation of projects at the micro-level, such as the income generating projects based on training and marketing for business and survival that are being undertaken by organizations like UNICEF and NGOs? You did not mention them, do you reject them? Are they temporary undertakings or are they solutions?

**Speaker:** I do not deny the role of micro-intervention or micro-enterprises. I recognize that in an economy like Egypt, the informal sector plays an important role. But economic



history does not provide us with a single case in which the informal sector or micro-interventions have been the engine of growth. They provide survival strategies for the poor, but by definition this is in low-productivity sectors. We must direct our attention to what is viable, that is the part of the informal sector that is closest to small enterprise. By providing credit, social protection and guidance this sector can contribute to employment creation, but it should not be regarded as a longer term panacea.

**Participant:** Regarding your diagram of the unemployment trend in Egypt, you show that the rate of productivity is increasing while real wages are falling. This indicates something interesting about income distribution, because if wages are going down, and we continue to give more incentives to investors, we are not making an effort to help the unemployed.

You also did not address the regional distribution of unemployment. There was an excellent paper by Dr. Hanaa Kheir El Din and Dr. Heba El Laithy showing that distribution of poverty in Egypt identically parallels the distribution of social investment. The governorates that suffer from more unemployment and lower income are those that are given the most governmental assistance.

**Speaker:** Concerning the relationship between wages and productivity, it is important to note that increased investment and sustained growth should lead to improved productivity. This increase in productivity should be allocated to the maintenance of real wages and reinvestment. This is the economic law. What we are witnessing now is a sharp decline in real wages, together with a decline in productivity in many sectors. The challenge is to create the conditions for a system in which increased investment leads to increased productivity and real wages.

It is very fashionable to talk about East and Southeast Asia, but most of the writings in Egypt about this are too general. The experiment in East and Southeast Asia is based on two issues. First, the governments were managerial governments brought up under Japanese rule. They made alliances with the private sector through a carrot and stick policy.

The second element of the ‘Asian Miracle,’ is that over 30 years they managed to achieve a high rate of growth and sustain it. They also achieved high rates of real wage growth but lower than productivity. The difference between the two went to capital accumulation

The study of the regional distribution of poverty in Egypt shows that areas of high poverty are not necessarily where unemployment is high. The poor cannot afford to be unemployed. But areas of high poverty are also areas of low average income. This has important implications for policy; areas of high poverty should receive urgent attention if social cohesion is to be maintained. Meanwhile, the question of unemployment should be addressed through the set of policies we are discussing.

**Participant:** I am interested in the practicality of Dr. Radwan’s proposals rather than the generalities of the presentation. The recommendation for sustainable growth is too general; the question is, how do we achieve that?

Your solution to Egypt’s low labor productivity is educational reform. This is a medium- or long-term process which does not generate immediate returns. What are your views regarding free training programs? And what should be the government’s role in developing these programs? Should this be done through incentives to the private sector?

**Speaker:** Regarding the unemployment/education dilemma, Egypt has been experiencing a de-skilling of the labor force over the last two decades. This is due to the deterioration in the educational system as well as poor training policies and institutions. The problem of reforming the educational system is well known, and the government is undertaking tremendous efforts to this end. The reform should start with basic education and focus on establishing a proper relationship between the output of the educational system and the demand of the labor markets. We have 536 training centers in Egypt, but they are highly ineffective. There are many models for modern training in the world, but what Egypt is currently pursuing has nothing to do with any of these models. There is no alternative but

to opt for mobilizing both the government and private sector to introduce modern training systems.

**Participant:** I take issue with some of the figures given in the presentation. Dr. Radwan said that with a population of 60 million Egypt has a labor force of 17 million, and two million of them are unemployed. That indicates a very high rate of statistical drop-outs. The Egyptian ratable labor force must be higher and the dimension of unemployment must be higher.

**Speaker:** The data shown in Table 2 are very clear. In 1995, the labor force was 17.7 million, of which 15.8 million were employed. I do not see where the 'dropouts' come from. The problem is that these figures hide the real magnitude of unemployment because they do not include children at work, housewives who perform productive activities and people above the age of 65 who are still economically active. If we add all these categories, the actual labor force figure will be higher and the actual employment rate will also be higher.

In conclusion, I am issuing a plea to move beyond rhetoric. The situation in Egypt requires serious consideration in order to develop a policy regime that can build on recent improvements in the macroeconomic situation confront the serious problems of the country. There is no alternative but to introduce policies for sustained economic growth which is employment intensive. Polemical arguments will not provide the elements of such a policy. What is required is a serious effort to look at other experiences and equip Egypt with a homegrown development strategy that will enable it to compete in the globalizing economy of the 21<sup>st</sup> century.

**APPENDIX**  
**LIST OF ATTENDEES**

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Abdel Aziz M. Hegazi  
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*Research Coordinator, Economic Research Forum*

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