

**Employment and Unemployment in Egypt:  
Conventional Problems, Unconventional Remedies**

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## Abstract

The debate on employment and unemployment in Egypt has been a major feature of public policy for the last few years. With unemployment reaching double-digit figures, the social actors have realized that it is time to confront the problem.

This paper argues that the implementation of unconventional policies and the creation of institutions are necessary to achieve the objective of "full employment," which has been illusive so far. It makes case for a paradigm shift away from partial solutions to a coherent plan of action. The three major components of this plan are: expansionary macroeconomic policy, enhancing the productivity of the labor force, and the reform of the civil service. All, of course, are subject to political will to design and implement a coherent and coordinated policy that goes beyond temporary palliatives.

## ملخص

أثارت قضية التشغيل والبطالة في مصر، خلال السنوات القليلة الماضية، جدلاً واسع النطاق بين واضعي السياسة العامة للدولة. هذا، وقد أدى الارتفاع الملموس في معدلات البطالة مؤخراً إلى اقتناع الأطراف الفاعلة بأن الوقت قد حان لمواجهة هذه المشكلة.

وفي هذا السياق، ترى هذه الدراسة ضرورة تبني سياسات وأطر مؤسسية غير تقليدية من أجل تحقيق "التوظيف الكامل"، وهو الهدف الذي طالما شغل بال صانعي السياسات. كما تؤكد على أهمية التحول من الحلول الجزئية إلى اتباع خطة عمل متكاملة تضم ثلاثة عناصر رئيسية وهي: اتباع سياسة كلية توسعية، وزيادة إنتاجية قوة العمل، وإصلاح القطاع الإداري الحكومي. وفي النهاية، تشير هذه الورقة إلى أن نجاح هذه الخطة يتوقف في المقام الأول على توافر الإرادة السياسية لتصميم وتنفيذ سياسات متكاملة دون الاعتماد على المسكنات المؤقتة.

## I. Introduction

The Egyptian Center for Economic Studies (ECES) has posed a challenge to revisit the problem of employment and unemployment in Egypt. This is a conventional problem that has occupied policy makers, academia, the media, and most importantly, every household in Egypt. Yet it is a problem that continues to frustrate all. Thus, it is most fitting that ECES has not only asked for a description of the problem and identification of its causes, but also to “outline a clear strategy for dealing with job creation and reduction of unemployment.”

It is from this perspective that this paper will address a single issue: what determines the economy’s ability to create sufficient employment to absorb the increase in the labor force under decent conditions? This is the time-honored objective of “full employment,” addressed notably by John Maynard Keynes after the Great Depression, which has come to center stage as a result of the global downturn that began in 1999 and has been compounded by the impact of the September 11 events. Leading economists are talking about the “return of depression economics,” and creating employment has emerged at the top of the agenda of developed and developing countries alike. The recent events in Argentina, the third largest economy in Latin America, after Brazil and Mexico, provide sobering lessons to both economists and policy makers. Despite the recent optimism about the performance of the global economy and the slowdown that has begun to bottom out,<sup>1</sup> there is concern that the volatility of the global economy should leave no place for complacency and that better management in support of robust growth on a world scale is badly needed.

Four years ago, the same issue was discussed in a paper entitled “Towards Full Employment: Egypt in the 21<sup>st</sup> Century.”<sup>2</sup> The main conclusion was that Egypt was “at a crossroads and sound choices must be made. The country must build upon the success of stabilization and resumption of growth. Entering the 21<sup>st</sup> century, Egypt must take the ‘high road to growth’ with the objective of achieving full employment.” The paper outlined the main elements of an “employment-intensive growth strategy,” and argued that such a strategy was 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

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<sup>1</sup> IMF (2002), *World Economic Outlook*, April.

<sup>2</sup> Radwan, Samir (1998), “Towards Full Employment: Egypt in the 21<sup>st</sup> Century,” *Distinguished Lecture Series* no. 10, The Egyptian Center for Economic Studies.

strategy for sustainable growth with equitable distribution.” The assumption underlying such optimism was that Egypt’s macroeconomic performance was bearing fruits on almost all fronts: controlling inflation, reducing balance of payments and budget deficits, and accumulating reserves; except one – employment creation. The prognosis was that, provided economic reforms were deepened to sustain growth, policies and institutions needed to be put in place in order to enhance the economy’s capacity for job creation. The focus was on emergency employment schemes, skill formation and training, and strengthening labor market institutions.<sup>3</sup>

By 2001, the objectives of “full employment” remained as illusive as ever and the problem of unemployment rose to the top of the agenda for the country as a whole. Today, the questions are: what has gone wrong and why; and how do we get out of this situation? The purpose of this paper is to tackle these questions within the constraints imposed by the notorious lack of data on employment and unemployment.<sup>4</sup> The basic argument is that while the diagnosis of the problem and its causes are well-known, unconventional policies and institutions are required if the present trends are to be reversed.

## **II. The Problem and its Dimensions**

As mentioned earlier, the diagnosis of the problem of employment and unemployment is only too well-known. This paper attempts to present the “stylized facts” in a way that will help focus attention on areas for policy interventions. Parting with the traditional method of providing detailed descriptions based on statistical artifacts which pretend the accuracy of data, this paper makes a number of statements that in their totality provide a profile of the problem.

### ***Statement one: Labor force growth has outstripped the demand for labor***

Demographic trends partly explain the increase in labor supply over demand. During 1988-1998, the labor force increased at an average of 523,000 workers per year while according to official estimates, employment increased by 435,000 on average, leaving a deficit of 88,000 workers annually to join the ranks of the unemployed. These trends are likely to continue in

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<sup>3</sup> For details see Radwan, Samir (2000), “Job Creation in Egypt: Some Strategic Orientations,” UNDP, Cairo, Egypt.

<sup>4</sup> Researchers are indebted to the excellent efforts by ERF for making available a compendium of comparative data based on the 1988 Labor Force Sample Survey and the 1998 Labor Market Survey prepared by Ragui Assaad.

the near future as the labor supply is forecast to grow at 2.6 percent for 2001–2010.<sup>5</sup> For the next ten years, the average number of new job seekers will increase to 638,000 per year compared to the capacity of the Egyptian economy to create 435,000 jobs annually over the last decade.

A more significant measure of labor supply should take into account the output of the educational system, as well as the dropouts who join the labor market every year as job seekers – an estimated 896,000 persons in 1999/2000.<sup>6</sup> Assuming that the domestic economy generates 435,000 jobs and that 90,000 migrate annually, the total labor absorption amounts to only 58.6 percent of supply or a deficit of 371,000 jobs a year.

***Statement two: Labor market imbalances account for labor surplus***

A major characteristic of the Egyptian labor market has been the dislocation between supply and demand. Educational and training systems continue to churn out graduates taking little or no account of the actual demand for labor. An analysis of the results of a survey on expected demand over 2001–2005<sup>7</sup> compared to the present structure of supply has revealed a number of serious imbalances in the labor market, the most important of which are outlined below.

- (i) Labor demand conforms to existing sectoral structure of employment: agriculture, the main employer which provides 42 percent of the employed with jobs, generates very little new demand (less than 5%); industry accounts for the highest demand (46.5%); followed by services (28.1%); and trade (7.3%). It is surprising that the construction sector accounts for 6.1 percent of total new demand, which is almost equal to its share in employment (5.1%). More surprising perhaps is the modest share of the sectors of the “new economy” as the demand for labor in “financial services” represents 0.8 percent and “business services” as little as 0.7 percent (Table 1).

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<sup>5</sup> World Bank (2001), *Egypt, Social and Structural Review*, p. 57.

<sup>6</sup> The present government has to be credited for making the distinction between the demographic increase in labor supply and the actual increase by taking into account the total outputs from the educational system, plus dropouts, minus those who opt voluntarily out of the labor market, estimated at 20 percent of female graduates; see Tarek Noueir (2001), “Estimating the Volume of New Entrants to the Labor Market for 1998/99,” IDSC, Cairo, Egypt.

<sup>7</sup> Prime Minister’s Office (2001), “The Demand Side in the Egyptian Labor Market,” June, Cairo, Egypt. This report is based on a survey, carried out by CAPMAS and financed by the Social Fund, covering 43,000 establishments employing 5 and more persons outside government, but includes a 20 percent sample of the informal sector employing 5-9 persons.

**Table 1: Distribution of Employment (1998) and Labor Market Demand (2001-2005):  
By Economic Activity**

| Sector                  | Employed     |            | Labor Market Demand |            |
|-------------------------|--------------|------------|---------------------|------------|
|                         | Thousand     | %          | Thousand            | %          |
| Agriculture             | 8993         | 42         | 65                  | 4.6        |
| Mining                  | 41           | 0.2        | 7                   | 0.5        |
| Industry & Petroleum    | 2494         | 11.6       | 661                 | 46.5       |
| Electricity             | 149          | 0.7        | 3                   | 0.2        |
| Building & Construction | 1098         | 5.1        | 87                  | 6.1        |
| Transportation          | 938          | 4.4        | 50                  | 3.5        |
| Trade                   | 2479         | 11.6       | 104                 | 7.3        |
| Financial Services      | 327          | 1.5        | 12                  | 0.8        |
| Tourism & Hotels        |              |            | 275                 | 19.4       |
| Business Services       |              |            | 11                  | 0.7        |
| Personal Services       | 4900         | 22.9       | 81                  | 5.7        |
| Education               |              |            | 33                  | 2.3        |
| Health                  |              |            | 32                  | 2.3        |
| <b>Total</b>            | <b>21416</b> | <b>100</b> | <b>1419</b>         | <b>100</b> |

*Sources:* Employment: CAPMAS, Labor Force Sample Survey 1998; Labor Market Demand: The Demand Side in the Egyptian Labor Market.

- (ii) The majority of the unemployed are not likely to be demanded: the labor demand for the major unemployment category (those with intermediate education) is minimal (4%) although they represent 55 percent of the unemployed. The bulk of demand (66%) is for unskilled labor (below intermediate education), with only 17 percent of the demand for graduates of higher education (Table 2).
- (iii) Demand for occupations suggests the new economy is not a panacea: technicians account for the highest share of labor demand (31%); followed by services (7.8%); and sales (7.5%). Occupations of the new economy account for a modest share, with demand for “technicians in mathematics, statistics, and computers” representing as little as 0.4 percent of demand, while “specialists” in the same occupations account for 1.2 percent.

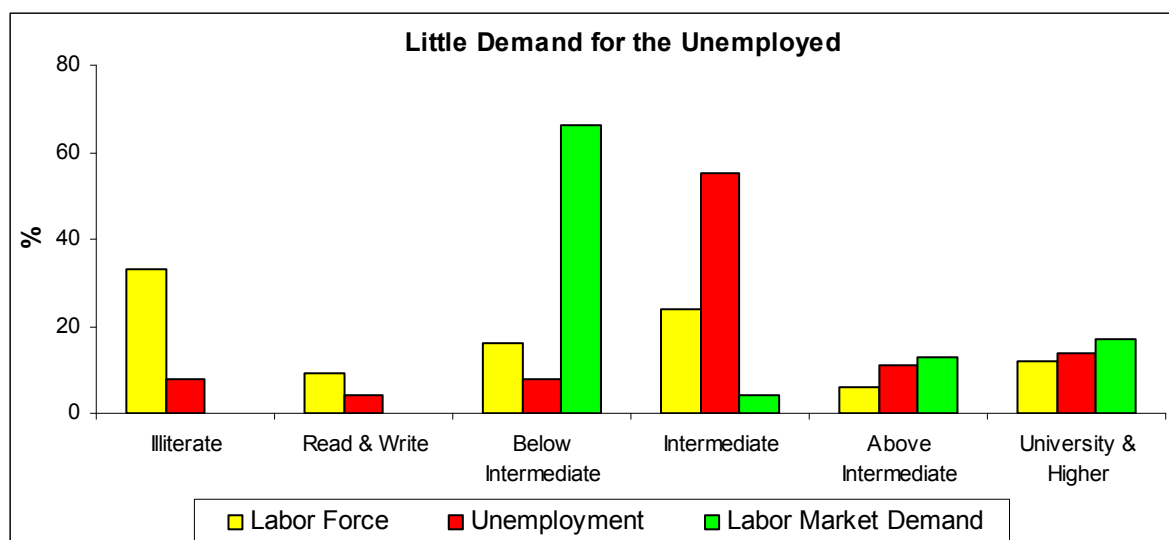
**Table 2: Labor Force Distribution & Unemployment (1998) and Labor Market Demand (2001-2005): By Education Status**

| Sector              | Labor Force* |     | Unemployment** |     | Labor Market Demand |     |
|---------------------|--------------|-----|----------------|-----|---------------------|-----|
|                     | Thousand     | %   | Thousand       | %   | Thousand            | %   |
| Illiterate          | 7192         | 33  | 135            | 8   |                     |     |
| Read & Write        | 2076         | 9   | 73             | 4   |                     |     |
| Below Intermediate  | 3522         | 16  | 143            | 8   | 531                 | 66  |
| Intermediate        | 5305         | 24  | 947            | 55  | 28                  | 4   |
| Above Intermediate  | 1267         | 6   | 181            | 11  | 108                 | 13  |
| University & Higher | 2705         | 12  | 242            | 14  | 138                 | 17  |
| Total               | 22061        | 100 | 1721           | 100 | 805                 | 100 |

Source: Labor Force & Unemployment: CAPMAS, Labor Market Demand: Labor Demand Survey in Labor Market.

\* Represents persons at working age (6 years or more)

\*\* Includes 15 years or more



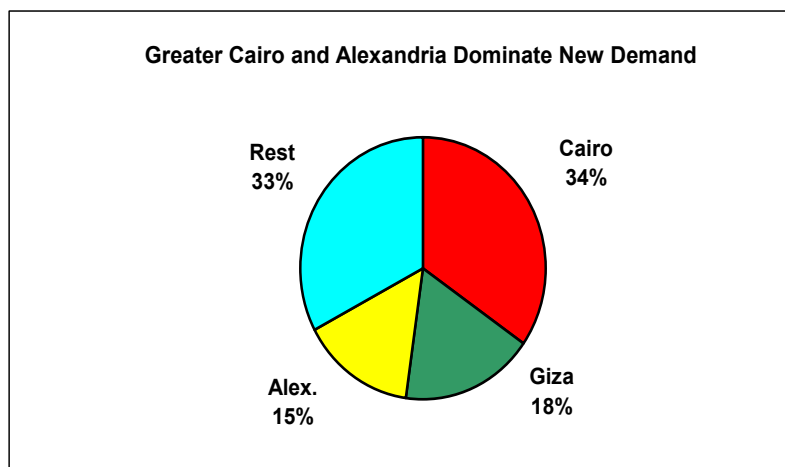
- (iv) Geographical distribution of demand strengthens present disparities: spatial distribution of demand favors relatively rich governorates (Cairo, Giza, and Alexandria account for two-thirds of total demand), with little demand for

deprived governorates in the Delta and especially in Upper Egypt where unemployment is higher than the national average (Table 3).

**Table 3: Distribution of Labor Force and Unemployment (1999/2000) and Labor Market Demand (2001/2005)**

| Governorate               | Labor Force |      | Unemployment |      | Labor Market Demand |      |
|---------------------------|-------------|------|--------------|------|---------------------|------|
|                           | Thousand    | %    | Thousand     | %    | Thousand            | %    |
| Cairo                     | 2423        | 12.8 | 117          | 4.8  | 492                 | 34.6 |
| Alexandria                | 1133        | 6    | 43           | 3.8  | 216                 | 15.2 |
| Port Said                 | 187         | 1    | 8.2          | 4.4  | 45                  | 3.2  |
| Suez                      | 150         | 0.8  | 15.8         | 10.5 | 34                  | 2.4  |
| Damietta                  | 293         | 1.5  | 21           | 7.2  | 28                  | 1.9  |
| Dakahliya                 | 1458        | 7.7  | 174          | 11.9 | 29                  | 2    |
| Sharkiya                  | 1332        | 7.1  | 127          | 9.5  | 72                  | 5.1  |
| Kalyobiya                 | 1075        | 5.7  | 67.7         | 6.3  | 44                  | 3.1  |
| Kafr El Sheikh            | 710         | 3.8  | 73.2         | 10.3 | 14                  | 1    |
| Gharbeyia                 | 1214        | 6.4  | 118          | 9.7  | 25                  | 1.8  |
| Monofiya                  | 1024        | 5.4  | 55.2         | 5.4  | 24                  | 1.7  |
| Beheira                   | 1270        | 6.7  | 167          | 13.2 | 21                  | 1.4  |
| Ismailiya                 | 231         | 1.2  | 18.6         | 8.1  | 54                  | 3.8  |
| Giza                      | 1337        | 7.1  | 52.2         | 3.9  | 248                 | 17.5 |
| Beni Suef                 | 629         | 3.3  | 30.2         | 4.8  | 4                   | 0.3  |
| Fayoum                    | 550         | 2.9  | 24.3         | 4.4  | 15                  | 1.1  |
| Minia                     | 1157        | 6.1  | 81.2         | 7    | 6                   | 0.4  |
| Asiut                     | 719         | 3.8  | 78.7         | 11   | 7                   | 0.5  |
| Sohag                     | 824         | 4.4  | 81.4         | 9.9  | 7                   | 0.5  |
| Kena                      | 546         | 2.9  | 54           | 9.9  | 8                   | 0.6  |
| Luxor                     | 92          | 0.5  | 1.8          | 2    | 2                   | 0.1  |
| Aswan                     | 262         | 1.4  | 49.8         | 19   | 5                   | 0.3  |
| Red Sea                   | 72          | 0.4  | 11.5         | 16   | 12                  | 0.9  |
| New Valley                | 57          | 0.3  | 9.5          | 16.7 | 2                   | 0.1  |
| Matrouh                   | 64          | 0.3  | 4.7          | 7.3  | 4                   | 0.3  |
| North Sinai & South Sinai | 83          | 0.5  | 6.2          | 7.5  | 2                   | 0.1  |
| Total                     | 18891       | 100  | 1491.2       | 7.9  | 1419                | 100  |

Source: CAPMAS; Demand Survey in Egyptian Labor Market (2001).





**Statement three: The government remains a major source of non-agricultural employment and the informal sector continues to be the main refuge for low-productivity, low-income employment, especially for women**

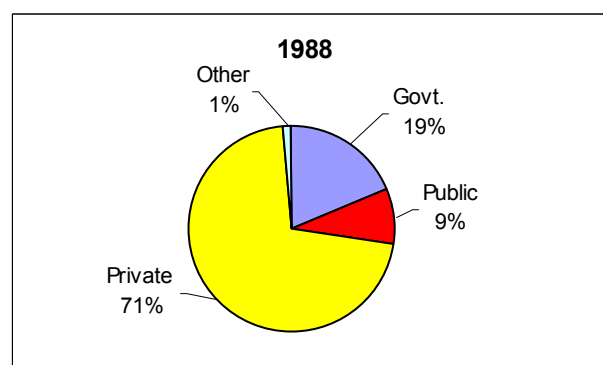
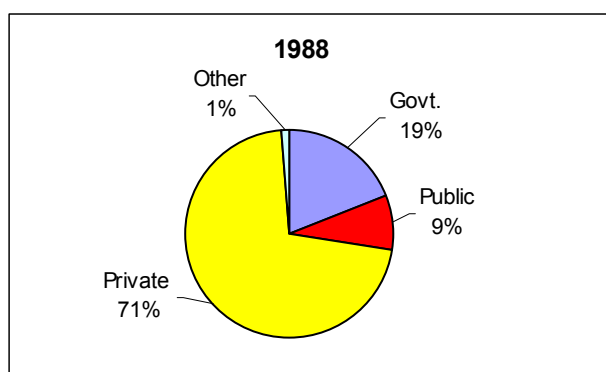
Public employment accounted for 34.7 percent of the growth in employment between 1988-1998. While the public sector's share declined from 8.6 percent to 5.2 percent, that of the government increased from 19.0 percent to 23.9 percent, thus increasing the overall share of public employment from 27.6 percent to 29 percent during the same period (Table 4).

**Table 4: Employed Persons (15-64): By Sector**

| Sector     | 1988  | % of Total Employed | 1998  | % of Total Employed |
|------------|-------|---------------------|-------|---------------------|
| Government | 2974  | 19.0                | 4793  | 23.9                |
| Public     | 1349  | 8.6                 | 1042  | 5.2                 |
| Private    | 11177 | 71.3                | 14021 | 70.0                |
| Other      | 180   | 1.1                 | 172   | 0.9                 |
| Total      | 15681 | 100                 | 20033 | 100                 |

Sources: The Economic Research Forum for Arab Countries, Iran and Turkey, Comparing Egypt Labor Force Sample Survey 1988 and Egypt Labor Market Survey 1998.

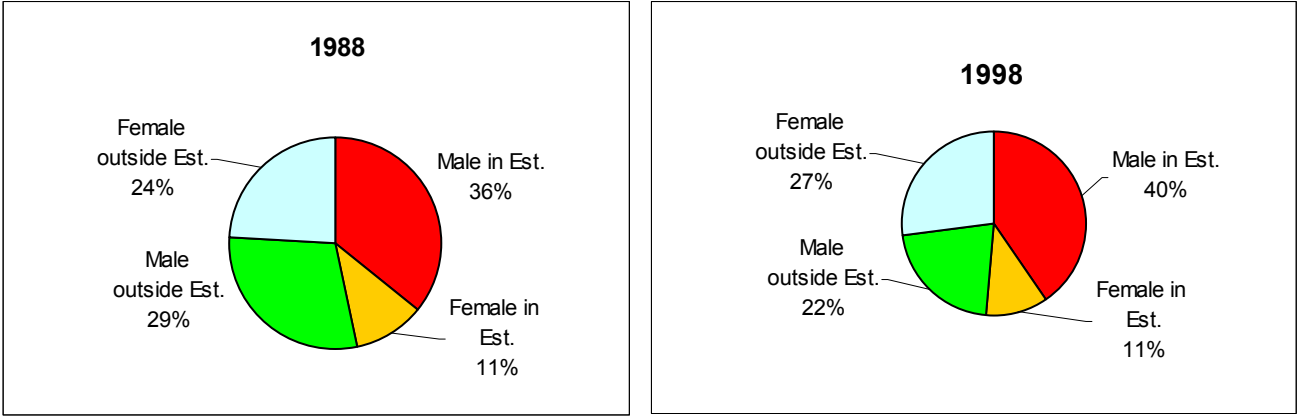
**Labor Market Structure: By Sector**



The contribution of agriculture to employment growth declined by -0.4 percent between 1988-1998, while that of the private non-agricultural sector increased (38.3% of growth). Most of the increase in private sector employment has been in the informal sector. According to some estimates, the informal sector accounted for 51 percent of total employment in 1990, and increased to 54 percent by 1998. Moreover, the share of women in informal employment increased from 33 percent to 39 percent and that of men declined from

67 percent to 61 percent during the same period.<sup>8</sup> These statistics point to a trend toward the increased feminization of the informal sector. The following figure provides the distribution in and outside establishments.

**Employed Persons (15-64), Main Economic Activity: Egypt**



Sources: The Economic Research Forum for Arab Countries, Iran and Turkey, Comparing Egypt Labor Force Sample Survey 1988 and Egypt Labor Market survey 1998.

Migration declined as a “sponge” absorbing potential unemployment. The declining labor demand by the oil-producing countries, which peaked around 1985 when migration accounted for 10-15 percent of the Egyptian labor force, has been accentuated by the decline in oil prices during the 1990s and by countries replacing foreign labor with nationals. At present, migration represents at best 90,000 workers or 5 percent of the labor force.<sup>9</sup>

***Statement four: Labor markets have under-performed resulting in increased unemployment and decline in labor income***

A serious aspect of labor market outcomes is the rise in unemployment over the last decade. The growth performance of the economy has failed to create sufficient jobs to match the rapid increase in the labor force of 2.7 percent per year. Estimates of unemployment vary, but official statistics suggest a decline from 12 percent in 1986, to 9 percent in 1996, and 7.4 percent in 2000. Ragui Assaad estimates that unemployment increased from 5.4 percent (0.89 million) in 1988 to 7.9 percent (1.72 million) in 1998. If corrected for female unemployment the estimates go up to 11.7 percent. Unemployment amounted to 11 percent in 1995, and, if corrected, to 14-15 percent or 2.5 million compared to 1.5 million reported by the 1996

<sup>8</sup> Moktar, May and Jackline Wahba (forthcoming 2002), “Informalization of Labor in Egypt,” in Ragui Assaad (ed.), *The Egyptian Labor Market in an Era of Reform*, Chapter 4, published by Cairo: AUC Press and UK: I.B. Taurus.

<sup>9</sup> Estimates by the Ministry of Manpower and Migration.

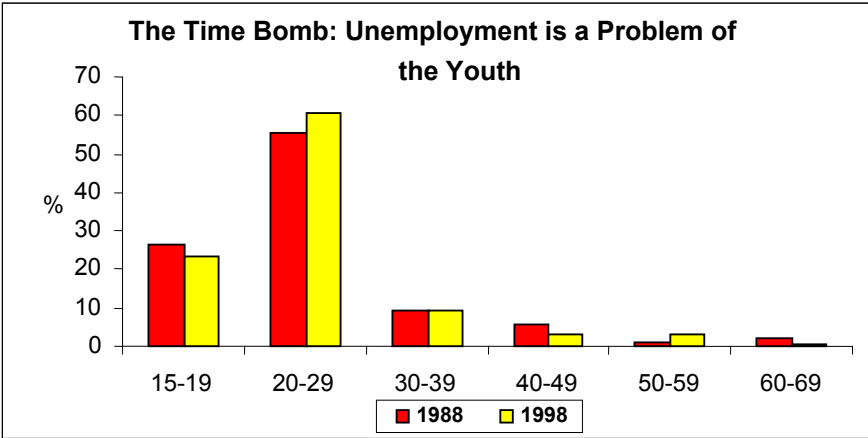
census.<sup>10</sup> Regardless of the estimates, the fact remains that unemployment is on the rise. More relevant than the rates, especially in an economy dominated by informal employment, is the profile of unemployment, the main salient features of which are:

- (i) Unemployment is essentially a problem of the youth. Total unemployment for those aged 15-29 has increased from 82 percent in 1988 to 84 percent in 1998, and the majority of these are first-time job seekers. The negative economic and social repercussions of such a situation cannot be overemphasized (Table 5).

**Table 5: Unemployed Persons (15-64): By Age**

| Age                       | 15-19 |      | 20-29 |      | 30-39 |      | 40-49 |      | 50-59 |      | 60-69 |      |
|---------------------------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|
|                           | 1988  | 1998 | 1988  | 1998 | 1988  | 1998 | 1988  | 1998 | 1988  | 1998 | 1988  | 1998 |
| Share in Unemployment (%) | 26.5  | 23.1 | 55.2  | 60.5 | 9.2   | 9.4  | 5.5   | 3.3  | 1.3   | 3.0  | 2.1   | 0.7  |

*Sources:* The Economic Research Forum for Arab Countries, Iran and Turkey, Comparing Egypt Labor Force Sample Survey 1988 and Egypt Labor Market survey 1998.



- (ii) Unemployment is concentrated among the graduates of intermediate education (55% of total unemployment) for whom the prospects of finding jobs are not promising (See table 2 above).

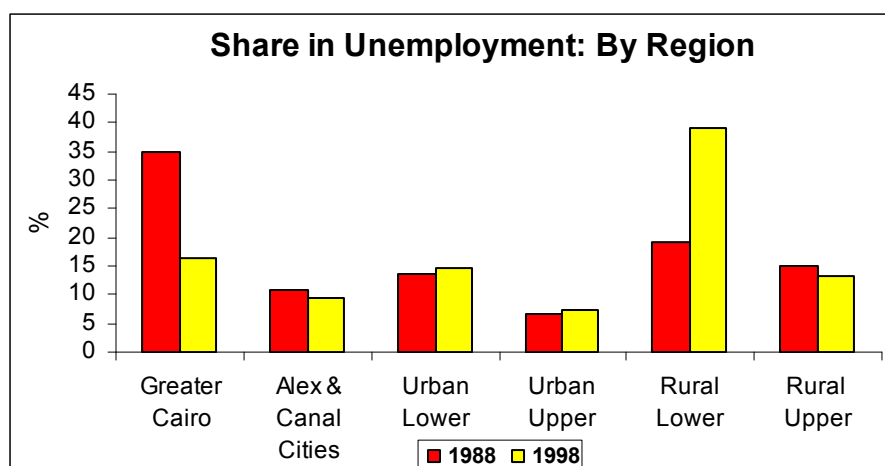
<sup>10</sup> Assaad, Ragui (1999), “The Transformation of the Egyptian Labor Market, 1988-1998,” EPIC, Cairo, Egypt. Fergany, Nader (1999), “Unemployment in Egypt: Dimensions and Solutions (in Arabic),” Almishkat Center for Research, Cairo, Egypt.

- (iii) Unemployment continues to linger in rural areas accounting for 52 percent of the total unemployment in 1998 (Table 6).

**Table 6: Unemployed Persons (15-64): By Region**

| Region                    | 1988          |                     |             |             |             |             | 1998          |                     |             |             |             |             |
|---------------------------|---------------|---------------------|-------------|-------------|-------------|-------------|---------------|---------------------|-------------|-------------|-------------|-------------|
|                           | Greater Cairo | Alex & Canal Cities | Urban Lower | Urban Upper | Rural Lower | Rural Upper | Greater Cairo | Alex & Canal Cities | Urban Lower | Urban Upper | Rural Lower | Rural Upper |
| Share in Unemployment (%) | 34.8          | 10.8                | 13.6        | 6.5         | 19.2        | 15.1        | 16.5          | 9.4                 | 14.8        | 7.2         | 39.0        | 13.2        |

Sources: The Economic Research Forum for Arab Countries, Iran and Turkey, Comparing Egypt Labor Force Sample Survey 1988 and Egypt Labor Market Survey 1998.



- (iv) The rate of unemployment among women is double the national average and three and half times that of males.

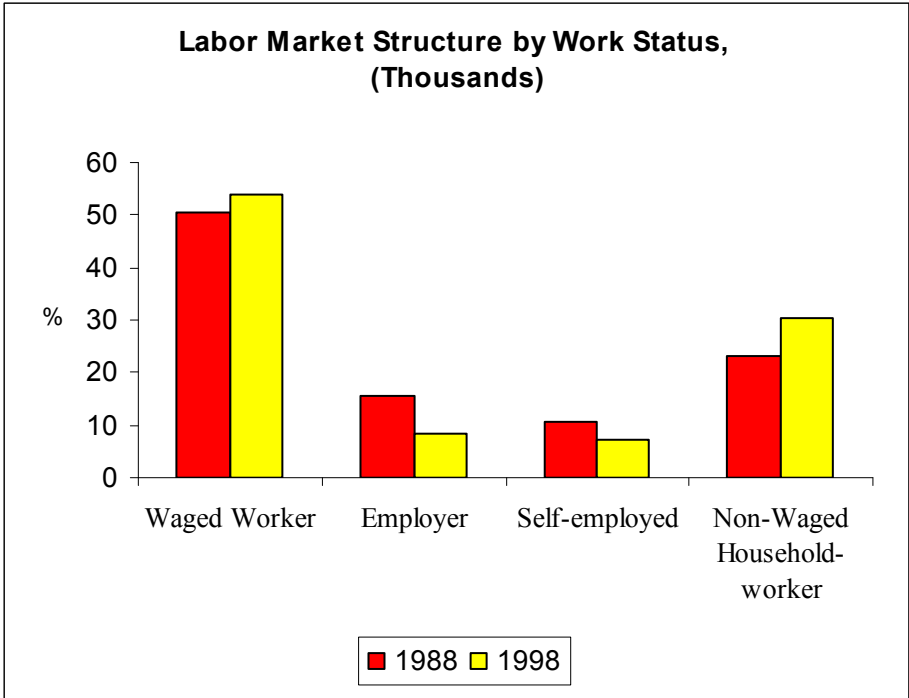
Another labor market outcome with direct impact on the welfare of half the labor force who are wage-earners (Table 7) is the erosion of their income over time. Real wages in almost all sectors declined and on average, wages in 1994/95 were two-thirds of those of 1985/86. According to the World Bank, “Real hourly wages over the 1988/89 period declined in almost every sector of the economy by an average of 3.6 percent and 1.3 percent per annum for males and females respectively. Wages of better paid workers decreased, which resulted in

compression of the overall wage structure over the decade.”<sup>11</sup> Naturally, this trend of declining wages has to be set against growth in productivity which amounted to 1.6 percent per year during 1988-1998 compared to 2.7 percent annual growth of the labor force. To a large extent, declining wages and low productivity growth explain the rise in poverty incidence over the last decade<sup>12</sup> (Table 8).

**Table 7: Employed Persons (15-64): By Work Status**

| Work Status                | 1988  | % of Total Employed | 1998  | % of Total Employed |
|----------------------------|-------|---------------------|-------|---------------------|
| Waged Worker               | 7945  | 50.7                | 10808 | 54.0                |
| Employer                   | 2453  | 15.6                | 1683  | 8.4                 |
| Self-employed              | 1673  | 10.7                | 1460  | 7.3                 |
| Non-Waged Household-worker | 3611  | 23.0                | 6081  | 30.4                |
| Total                      | 15680 | 100                 | 20032 | 100                 |

Sources: The Economic Research Forum for Arab Countries, Iran and Turkey, Comparing Egypt Labor Force Sample Survey 1988 and Egypt Labor Market Survey 1998.



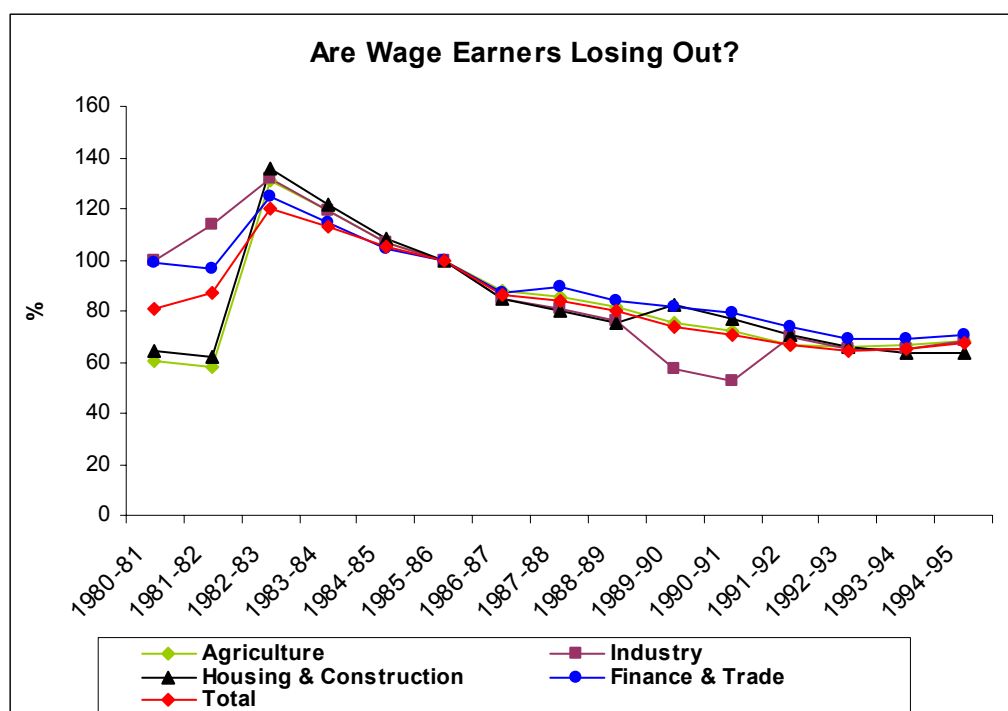
<sup>11</sup> World Bank, p. VIII, op. cit., p. 3.

<sup>12</sup> For a discussion of the poverty issue see Radwan, p. 9-14, op. cit., p. 1.

**Table 8: Index of Real Wages in Egypt, 1980-81 to 1994-95 (1980 =100)**

| Sector                          | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Agriculture                     | 60.2    | 57.7    | 130.8   | 119.3   | 107     | 100     | 88.2    | 85.5    | 81.6    | 75      | 72      | 66.3    | 65.8    | 67      | 68.6    |
| Industry                        | 99.8    | 113.5   | 131.4   | 118.9   | 107     | 100     | 85      | 80.5    | 76.1    | 57.6    | 52.2    | 69.8    | 65      | 65      | 68.4    |
| Petroleum                       | 78.8    | 80.5    | 114.8   | 110.5   | 104.8   | 100     | 87      | 82.7    | 77.8    | 70.7    | 69.1    | 63.5    | 55.7    | 79.2    | 57.8    |
| Electricity & Gas               | 69.2    | 69.3    | 97.6    | 98.9    | 100.1   | 100     | 84.2    | 79.4    | 75.9    | 69.8    | 68.8    | 67.9    | 66      | 66.2    | 67.6    |
| Housing & Construction          | 64.4    | 62.1    | 135.3   | 121.4   | 107.9   | 100     | 85      | 80.1    | 75.4    | 82.1    | 77.1    | 70.2    | 65.8    | 63.2    | 63.3    |
| Transportation & Communications | 60.2    | 84.4    | 122.7   | 113.9   | 104.5   | 100     | 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     | 87      | 89.6    | 84.2    | 81.3    | 79.4    | 73.6    | 68.9    | 69.2    | 70.3    |
| Other Services                  | 82.3    | 130.7   | 110.8   | 108.8   | 104.2   | 100     | 85      | 82.4    | 76.6    | 68.6    | 66.3    | 55.8    | 57.3    | 58.2    | 62      |
| Total                           | 80.4    | 87.4    | 120     | 113     | 104.9   | 100     | 86.4    | 84.3    | 79.7    | 73.6    | 70.9    | 66.4    | 64.4    | 65.3    | 67.8    |

Sources: CAPMAS data, as reported in "International Labor Office, Job Creation and Poverty Alleviation in Egypt: Strategy and Programs," draft (August) (Geneva: ILO, 1997) From Richard H. Adams, Jr., *Evaluating the Progress of Development in Egypt, 1980-97*.

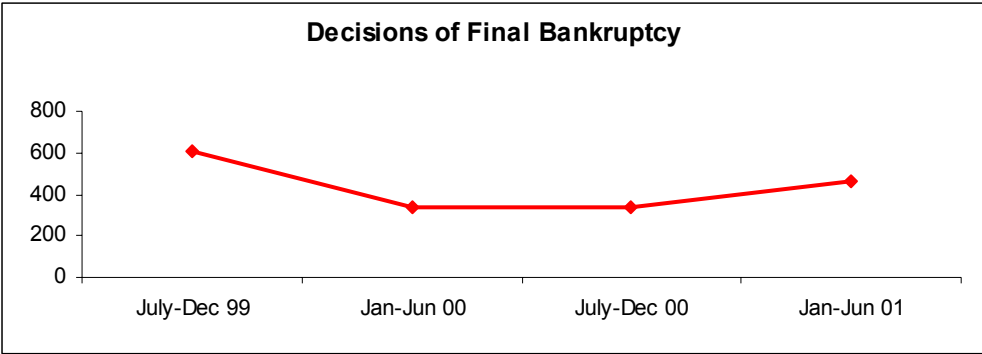


Rising unemployment and successive external shocks, i.e., decline in oil prices, global recession, and economic fallout as a result of the September 11 events; have led to increased socio- economic insecurity. Three out of ten graduates of intermediate education are certain not to find a job. The wave of layoffs as a result of downsizing and bankruptcies has added to a feeling of insecurity (Table 9).

**Table 9: Bankruptcy Court Decisions (Individuals – Establishments)**

| Bankruptcy Court Decisions    |            |             |            |             |            |
|-------------------------------|------------|-------------|------------|-------------|------------|
|                               | Jan-Jun 99 | July-Dec 99 | Jan-Jun 00 | July-Dec 00 | Jan-Jun 01 |
| Decisions of Final Bankruptcy | 328        | 607         | 341        | 336         | 458        |

Source: IDSC, Monthly Economic Bulletin.



**III. Understanding the Performance in the 1990s**

It emerges from the pervious analysis that the optimism of the mid-1990s has not been realized and now there is a consensus that unemployment remains the crucial challenge. The huge rush for government jobs in the summer of 2001 has belied the official unemployment statistics, in which the Central Agency for Public Mobilization and Statistics (CAPMAS) remains the only believer.<sup>13</sup>

<sup>13</sup> In response to the government’s five employment and training programs, there was a rush of applicants totaling 4.4 million or one-fourth of the labor force. Many of these were already employed, but the rush indicates that there is a large reserve of surplus labor. That preference for government employment remains popular, in many cases as some sort of social insurance.

The government is fully aware of this problem and since late 1999 the issue of unemployment has been at the top of its agenda. The first “Government Program” stated that all efforts should be directed at increasing incomes, sustaining this increase, ensuring equality in its distribution, and creating maximum employment opportunities.”<sup>14</sup> Since then, various measures have been taken with this objective in mind. Basically, the government’s response to the situation followed two tracks: (a) macroeconomic management focused mainly on monetary and fiscal policies to achieve stability and protect the local currency; and (b) launching an employment program to absorb the 896,000 new entrants to the labor market through government jobs, training, Social Fund programs, local development, and the private sector. Despite these efforts, the unemployment problem continues to vex policy makers and society at large. Three sets of factors seem to be responsible for the present impasse:

- (i) Slow economic growth: a recent IMF report summed up the situation as follows: “During most of the 1990s, Egypt made considerable progress in macroeconomic stabilization and structural reform. These advances contributed to rising investment and stronger real GDP growth. In the late 1990s however, macroeconomic performance weakened as a result of a combination of policy and external factors. On the policy side, credit growth remained rapid and structural reform slowed, while measures of the fiscal deficit were revised upward, though the deficit of the general government was still low at the end of the decade. At the same time, tourism experienced a temporary downturn, global financing tightened after the Asian crisis, and the pound continued to appreciate as a result of the strengthening of the US dollar to which it remained pegged. Together, these developments resulted in sizable official reserve losses. Following monetary tightening in 1999/2000, private credit slowed significantly from earlier sustainable rates. This helped stabilize official reserves toward end-2000, but was associated with a marked slowdown in economic growth from 5 percent based on official data in 1999/2000, to preliminary estimates in the 3-3.5 percent range for 2000/01.”<sup>15</sup>

There is no doubt that external factors such as the global downturn and the impact of September 11 have played a major role in triggering the present slowdown, but reliance on

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<sup>14</sup> The “Government Program” submitted by the Prime Minister to Parliament on December 18, 1999, p. 45.

<sup>15</sup> World Bank (2001), “Egypt in Brief,” October, p. 2, at <http://inweb18-worldbank.org/mena/mena.ns>.



contractionary monetary and fiscal policies must have added to their impact. Significant leakage of potential investment through capital flight was also detrimental to growth performance. Savings continued more or less at 21 percent of GDP, compared to 27-35 percent achieved in East Asian economies which was necessary to sustain growth. Moreover, exports were still growing slower than expected, covering only 29 percent of imports on average during 1990-2000. At the same time, export structure was still concentrated on a single commodity – oil, which accounted for 36 percent of exports in 1999/2000 and therefore, was too vulnerable to exogenous movements in price and production.

- (ii) Domestic effective demand declined as a result of the general recession as well as the wage compression noted earlier.
- (iii) Labor productivity gains were modest growing by 1.4 percent per year during 1991-99.

To sum up, the response to the unfavorable internal and external factors has focused on monetary and fiscal policies, as well as direct intervention in the labor market. While these policies may buy time, they are not likely to provide long-term solutions to the problems of growth and unemployment.

Slow economic growth, decline in effective demand, and low total factor productivity (TFP) growth partially explain the regress in economic performance. A point worth making is the behavior of the labor market in response to such a situation. Unlike previous periods, we can not postulate that the public sector is the wage setter. There is a situation where public employment continues to be the “reference base” where public sector jobs are regarded as “employment of the last resort” or some sort of social safety net. This explains why public sector employment continues to be attractive. Private sector employment remains relatively weak to affect wages. In such a situation where public employment acts as a social security payment, private sector is weak, and migration is no longer important, domestic labor markets are basically saturated and any sign of flexibility comes as a response to the increase in the cost of living irrespective of any gains in productivity. This leads to a situation where labor markets are unable to function properly, and the way out is either rigidity or decline in demand, i.e. unemployment.

#### **IV. Recovery and Employment: The Need for a Coherent Strategy**

A pertinent question on this issue is: What is to be done to reverse the present trends of recession and rising unemployment?

Partial solutions may provide palliatives in the short run, but for the long-term there is no alternative to the introduction of unconventional policies and innovative institutions within a coherent strategy capable of sustaining growth and creating employment. It is time that the objective of employment creation is treated as an indigenous component of the socioeconomic policy.

Other crucial questions include: What should such a recovery and employment strategy look like; and how different should it be from traditional policies? Elsewhere, the elements have been outlined for what was called an “employment-intensive growth strategy” which was based on sustained growth that maximizes demand for labor.<sup>16</sup> The launch of a National Employment Program (NEP) has also been suggested which would comprise five components: (a) emergency employment schemes; (b) creating a national training fund; (c) reforming labor market institutions, especially employment services; (d) implementing an informal sector strategy; and (e) strengthening labor market information system. This paper does not dwell on this program, especially as some parts of it are being implemented in one form or another.<sup>17</sup> Instead, the case is made for a paradigm shift from partial solutions to a coherent strategy for recovery and employment. It is proposed that such a strategy has three major components: expansionary macroeconomic policy, enhancing the productivity of the labor force, and the reform of the civil service.

Before discussing each of these in turn, it must be emphasized that this attempt should be seen as an invitation to review, rethink, and reorient the policies of the past. Such rethinking must be based on two premises: (a) labor should be regarded as a potential and not a problem, this has the advantage of focusing attention on the continuous need to invest in human capital which is essential for future growth and competitiveness; and (b) there is a need for a new approach to employment policy, an approach which makes employment an overarching goal for macroeconomic policies. Employment should not be seen as a sectoral policy but as a successful coordination of all policies, macroeconomic as well as structural.

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<sup>16</sup> Radwan, *op. cit.*, p. 2.

<sup>17</sup> The government has launched a short-term training program for graduates and is planning to establish a National Employment Agency to reform labor offices.

### ***The Need for Expansionary Macroeconomic Policy***

It is proposed that current contractionary policies be replaced by more aggressive expansionary ones. Traditional contractionary macroeconomic policies have always viewed the situation in terms of a tradeoff between employment and inflation. The prescription is generally in favor of controlling inflation, in view of its negative effect on growth, even if it leads to unemployment. As a result, monetary and fiscal policies are designed to contain inflation. There is an emerging consensus that this argument should be turned on its head by making employment the central objective of macroeconomic policies. Experience with downturns (with close to 100 countries facing crises in the last quarter-century), has strengthened the view that monetary and fiscal policies should be “the linchpin of social policy.”<sup>18</sup> This does not mean that we should not fight inflation, but rather give precedence to employment even at the cost of some inflationary pressure. It has been argued that “inflation is not a genie that once out of the bottle cannot be put back in...we know that inflation can be controlled if we begin to see it accelerating and we need to move toward full employment, as full as we possibly can.”<sup>19</sup>

Similarly, government deficits are not necessarily bad all the time. The views of Keynes are still valid in the sense that, if consumers and business are not spending or investing enough to maintain adequate aggregate demand, government will be justified to step in. This is particularly appropriate in situations of global contraction as the one we are facing at present.

The situation in Egypt is such that growth is slowing, but monetary and fiscal policies are generally pro-cyclical in the sense that they lead to further contraction. At present, the rate of inflation remains low (5% in 2000), the budget deficit is manageable (1.9% of GDP), and the reserves, though lower than before (US\$ 14 billion), are not a major cause for concern. It is true that the international environment is not very favorable due to the global downturn and the impact of September 11, but there are powerful arguments for an expansionary policy to regenerate growth. Joseph Stiglitz, the 2001 Noble Laureate, has strongly advocated such a policy. He argued that “In framing macroeconomic policies, we need to keep our eyes on the ultimate objectives, and not on intermediate variables; on employment, growth, living

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<sup>18</sup> Reich, Robert (2001), speech at the Global Employment Forum, p. 2, ILO.

<sup>19</sup> Reich, p. 3, op. cit., p. 17.

standards, not interest rates, inflation rates, or exchange rates – variables which are important only to the extent that they affect the variables of fundamental importance.”<sup>20</sup>

The variables of “fundamental importance” are what macroeconomic policies in Egypt should focus on. In this respect, a recent World Bank report was right in emphasizing that “unemployment remains as a crucial challenge. Solving the employment problem through growth is critical not only for the economy, but also for social stability. Current official estimates place unemployment at about 8 percent, and the labor force is growing at about 3 percent annually. Egypt will need to achieve a sustained real GDP growth rate of at least 6 percent annually for unemployment to decline to more manageable levels.” The report goes on to point out that “to achieve and sustain these levels of growth, Egypt faces the challenges of low levels of domestic savings and investment, and increasing efficiency and competition in the domestic economies. On the external side, it needs to improve export performance and rely less on external resources that are vulnerable to shocks, such as remittances, oil and gas exports, and foreign aid. Also, if Egypt can attract increased levels of FDI, it will facilitate the country’s integration into global trade patterns and technology transfers.”<sup>21</sup>

In charting this policy, Egypt can benefit from international experience. It is clear what should be avoided: the meltdown in Argentina. Alternatively, the experience of Asian countries that emerged from the 1978 crisis is instructive. For instance, both Malaysia and Korea took different routes to recovery, but both succeeded. Korea, with a more mature economy, carried out an IMF-style reform from an early stage, pumping IMF money into the economy, but floated exchange rates, closed troubled banks, and undertook a range of other structural reforms. Malaysia took a different path. It introduced sweeping controls on capital account transactions, fixed the exchange rate, cut interest rate, and embarked on a policy of reflation. Both crises-resolution strategies succeeded, the first because of discipline, and the second because of restrictions on capital flight, and because the real economy was strong enough to counterbalance the impact of financial collapse.<sup>22</sup>

Finally, it must be pointed out that expansionary policies, like all policies, are not without risk. The question is: Who bears those risks? For this policy to succeed, redistribution

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<sup>20</sup> Stiglitz, Joseph (2001), “Employment, Social Justice and Social Well-Being,” Keynote address to the Global Employment Forum, p. 9, ILO, Geneva.

<sup>21</sup> World Bank, p. 1, op. cit., p. 14.

<sup>22</sup> Kaplan, Ethan and Dani Rodrik (2001), “Did the Malaysian Capital Control Work?” Harvard University.

should take place in favor of the social groups who are likely to spend what they get and spend it domestically. Evidence shows that in Egypt, “expenditures of the bottom half of the population appear to be fairly compressed. In 1996, the bottom 60 percent of the population at most had expenditures per capita 30 percent above the poverty line. Thus, small shifts in income could have large implications for the population’s welfare.”<sup>23</sup>

It can hardly be overemphasized that there is a need for a second wave of reform to complement that of the early 1990s. Reform is required to redress issues in both fiscal and monetary policies that enable the Egyptian economy to be competitive in the global economy. That is a fact the economy has to face and time is of the essence in this respect.

Macroeconomic reform has to be complemented by reform at the microeconomic level. This would require a coherent labor market policy which, so far, does not exist. Moreover, it would necessitate the reform of factor markets and of institutions in order to enable markets to function. Finally, the issue of competitiveness of the Egyptian economy hangs on two types of reform: (a) upgrading the quality of the labor force; and (b) creating our “enabling environment” by reducing the “transaction cost” which results from an inefficient and rent-seeking civil service. Thus, the reform of the civil service becomes an integral part of institutional reform necessary to enable markets to function in an efficient and equitable way.

### ***Enhancing the Productivity of the Labor Force***

It was argued above that full employment, as full as we can get, is a critically important social policy and that the major vehicles are fiscal and monetary policies. Over the longer term however, these policies alone will not be sufficient and will have to be complemented by other microeconomic policies that enable people not only to have jobs, but decent jobs. These include adequate education, adequate training, and a certain degree of labor market flexibility. This paper focuses on one aspect only – skill acquisition, not because other active labor market policies are not important, but because skills are at the cutting-edge in defining returns to labor and the economy’s competitiveness at large.

Egypt, compared to other developing countries, has one of the oldest and most extensive educational and training systems. Yet, the potential of the labor force is far from being fulfilled as a result of low productivity (by international standards) and misallocation of

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<sup>23</sup> World Bank, p. 6, op. cit., p. 3.

human capital that diverted it from employment in growth-enhancing activities. This has been reflected in the slow growth of TFP observed in Egypt (as well as the rest of the MENA region) during the 1980s and 1990s.<sup>24</sup>

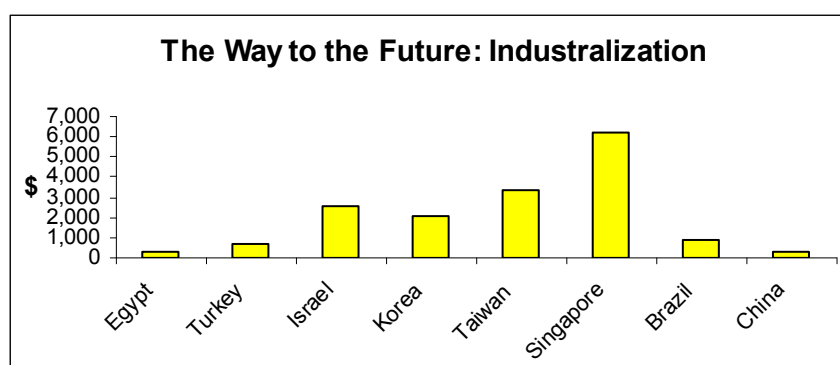
In Table 10, a number of international comparisons illustrate the present situation and point out possible areas of improvement:

**Table 10: Comparative Data on Competitiveness**

| Country   | Manufacturing value added 1998 (1985),<br>Current \$ m. | MVA per capita, 1998 (1985)<br>\$ | Share of medium and high-tech products in MVA, 1998 (1985), % | Manufactured exports 1998 (1985)<br>Current \$ m. | Share of medium and high-tech products in mfd. exports, 1998 (1985), % | Rank in UNIDO 'Competitive Industrial Performance' index, 1998 (1985) | Tertiary enrolments in technical subjects, thousands, 1995 (1985) | As % of population in 1998 (1985) | Rank in UNIDO skills index, 1998 (1985) |
|-----------|---------------------------------------------------------|-----------------------------------|---------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|-----------------------------------------|
| Egypt     | 20,020 (6,166)                                          | 326.1 (132.6)                     | 39.0% (31.0%)                                                 | 2,242 (458)                                       | 8.8 (0.7)                                                              | 57 (67)                                                               | 69.6 (75.0)                                                       | 0.12 (0.15)                       | 53 (41)                                 |
| Turkey    | 44,106 (12,274)                                         | 695.1 (244.1)                     | 38.0 (32.0)                                                   | 22,885 (5,790)                                    | 23.5 (18.2)                                                            | 38 (36)                                                               | 198.3 (114.1)                                                     | 0.33 (0.22)                       | 46 (47)                                 |
| Israel    | 15,497 (4,112)                                          | 2,598.8 (971.5)                   | 54.0 (52.0)                                                   | 22,073 (5,542)                                    | 46.1 (33.9)                                                            | 20 (20)                                                               | 37.4 (19.8)                                                       | 0.68 (0.45)                       | 23 (16)                                 |
| Morocco   | 6,091 (2,388)                                           | 219.3 (110.3)                     | 25 (25)                                                       | 3,108 (1,200)                                     | 12.4 (8.9)                                                             | 53 (46)                                                               | 66.7 (56.8)                                                       | 0.25 (0.25)                       | 54 (48)                                 |
| Jordan    | 860 (519)                                               | 188.6 (196.5)                     | 31 (14)                                                       | 470 (187)                                         | 5.0 (1.8)                                                              | 63 (60)                                                               | 17.5 (10.0)                                                       | 0.42 (0.35)                       | 40 (34)                                 |
| Korea     | 97,866 (27,264)                                         | 2,107.8 (668.1)                   | 60 (47)                                                       | 120,700 (29,025)                                  | 62.3 (47.9)                                                            | 18 (22)                                                               | 742.5 (320.7)                                                     | 1.65 (0.78)                       | 1 (1)                                   |
| Taiwan    | 73,183 (23,316)                                         | 3,351.2 (1,260.3)                 | 57 (43)                                                       | 105,554 (29,092)                                  | 61.3 (35.4)                                                            | 15 (19)                                                               | 226.8 (115.7)                                                     | 1.06 (0.59)                       | 8 (14)                                  |
| Singapore | 19,545 (4,174)                                          | 6,178.4 (1,681.1)                 | 80 (67)                                                       | 103,489 (19,094)                                  | 74.3 (39.9)                                                            | 1 (6)                                                                 | 14.1 (18.1)                                                       | 0.47 (0.71)                       | 31 (30)                                 |
| Mexico    | 81,192 (37,342)                                         | 854.6 (494.8)                     | 36 (37)                                                       | 103,681 (8,336)                                   | 65.5 (25.1)                                                            | 23 (28)                                                               | 400.1 (375.7)                                                     | 0.44 (0.48)                       | 43 (36)                                 |
| Brazil    | 151,274 (68,640)                                        | 912.0 (507.6)                     | 58 (54)                                                       | 38,882 (17,617)                                   | 34.3 (23.9)                                                            | 33 (27)                                                               | 289.3 (225.9)                                                     | 0.18 (0.16)                       | 58 (52)                                 |

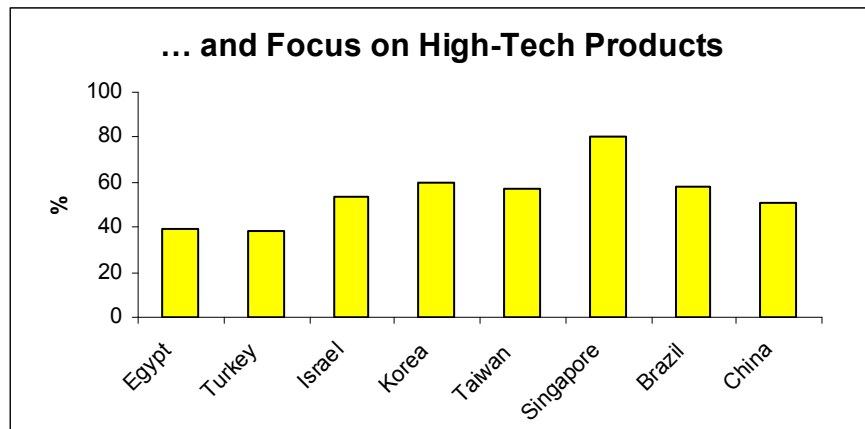
Source: UNIDO, World Industrial Development Report 2002, forthcoming. Courtesy of Professor Sanjaya Lall.

- (i) There is tremendous potential for deepening the process of industrialization. At present, Egypt's manufacturing value-added per capita is only 12.5 percent of Israel's and 15.5 percent of Korea's, but 14 percent higher than that of China.

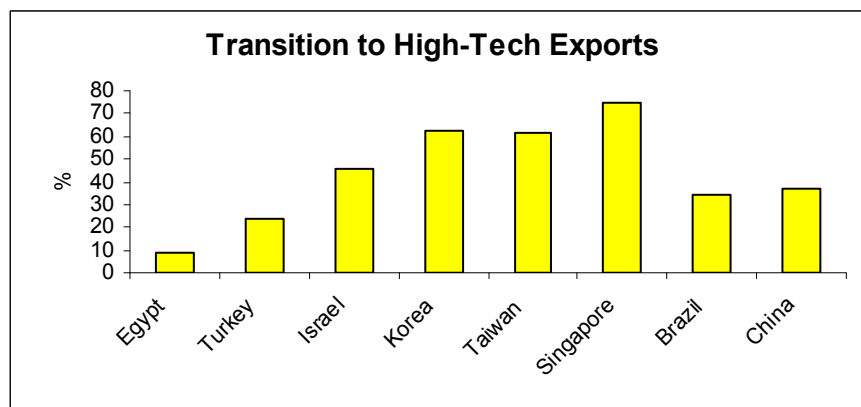


<sup>24</sup> Passarides, C. (2001), "Markets and Economic Growth in the MENA Region," Economic Research Forum for the Arab Countries, Iran and Turkey

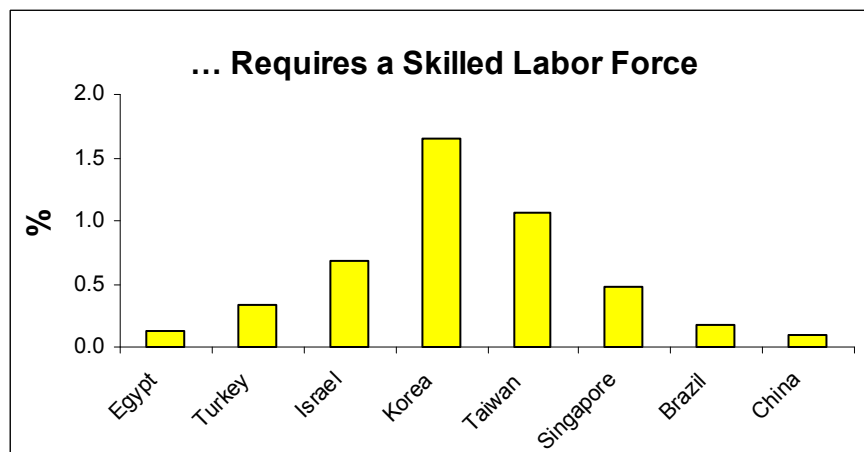
- (ii) The share in manufacturing value-added of medium and high-tech products is 39 percent in Egypt, compared to 54 percent in Israel, and 60 percent in Korea.



- (iii) Share of medium and high tech products in manufacturing exports is as low as 8.8 percent compared to 46 percent in Israel, 62 percent in Korea, and 37 percent in China.



- (iv) Tertiary technical education and enrollments is very modest as a proportion of population. This indicator is important in gauging the ability of the labor force to adopt and absorb new technology.



The primary objective of an employment strategy should be to upgrade the skills of the labor force. It is proposed that, in addition to the reform of the educational system, a modern and demand-driven training system should be established. International experience suggests that the establishment of a National Training Fund to replace the present supply-side system is the most effective way to address the needs of future development. Such a fund<sup>25</sup> must be conceived as a tool aimed at correcting imbalances in the labor market and inefficiencies in the training system.

Several models exist for the organization, its modes operandi, and the use and control of accumulated funds. In Latin America, training funds are totally under the control of employers and in some African countries, like the Cote D'Ívoire and Chad, are totally controlled by governments. In other countries, like Cyprus, training funds operate under a tripartite umbrella structure. In other cases, such as in Singapore, the training fund comes under the Economic Development Board. The range of the levy imposed also differs. In France it is 2 percent, in Cyprus it is 1.5 percent, and in many other countries it is 1 percent of total wages. Similarly, the use and control of funds and the legislative framework differ from one country to another.

The establishment of a semi-autonomous National Training Fund in Egypt has been proposed, where the private sector (the major source of demand) would have a major say. The proposal includes a levy on enterprises ranging from 0.5 percent to 2 percent of wages according to their size that would be financed from government budget allocations, and states that the fund should start with four sectors; manufacturing, tourism, construction, and transport. The establishment of such a fund has become a priority more than ever before, especially as a result of the increased competition following the WTO agreement.

### ***The Reform of the Civil Service***

Civil service reform has been a long-standing objective that dates to the 1950s. Successive governments have struggled to introduce such reforms, but their efforts were frustrated mainly due to pressures to absorb new graduates in public employment. In fact, a major component of the government's employment drive at present is to recruit 170,000 into civil service, thus maintaining the state's role as a major employer. The downside of what Ragui

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<sup>25</sup> ILO/UNDP (2001), "Investing in the Future: The National Training Fund of Egypt," Geneva.



Assaad calls the “entrapment” of graduates in public sectors,<sup>26</sup> is the detrimental effect on productivity as a result of a misallocation of human capital to low pay, low productivity public service jobs. In 1998, some 52 percent of males and 63 percent of females with secondary education and above were employed in the public sector. This “suggests that the education system in Egypt is effectively geared toward meeting the demands of the bureaucracy.”<sup>27</sup>

A long-term employment strategy should aim at a steady shift of labor force away from public service. With the transition to a high productivity economy, there is a need for lean-but-efficient civil service which will be the essential arm of a modern government. A prominent economist recently evoked the experience of France in preparing highly-skilled civil servants through the “Higher School of Administration that trained most political leaders in the country.”<sup>28</sup> Another, and perhaps closer model, is that of the Civil Service Examination in India, which is a tough screening mechanism to ensure high quality of public employees. It is proposed that a similar system be applied in Egypt, perhaps on pilot basis, to prepare higher quality and higher paid civil servants.

## V. Conclusion

The major objective of this paper is not to add to the multitude of literature on employment and unemployment. It is an invitation to review, rethink, and reorient policies that determine the economy’s capacity to emerge from recession and to ensure the absorption of the burgeoning labor force. It has been argued that there are compelling reasons to depart from traditional policies in favor of unconventional ones. Labor has to be viewed as a potential, not a problem. Macro and micro economic policies should be geared to realize this potential. A crucial question remains as to the creation of conditions to achieve such objectives.

The choice of policy regimes requires the mobilization of support for these policies from interest groups. The best way to achieve this is to ensure the engagement of the stakeholders in the process of reform: policymakers, consumers, and investors. A long-term

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<sup>26</sup> Assaad, Ragui (Forthcoming 2002), “Microeconomics of Growth in Egypt: The Role of Households and Institutions,” *Research Report*, Economic Research Forum for the Arab Countries, Iran and Turkey; Cairo, Egypt.

<sup>27</sup> Assaad, op. cit., p. 23

<sup>28</sup> El-Biblawy, Hazem (2001), “What About the Future of Public Service,” *Al-Ahram Daily*, December 23.

strategy for full employment can only succeed if it is owned by a broad spectrum of the population.

Both Egyptian policy makers and other social partners have a common challenge to face; how to enable the economy to realize its potential in a competitive world. This is all the more important in view of the pressing need to fight poverty and to enhance the competitiveness of the Egyptian economy.