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# Dynamics of the Egyptian Labor Market

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# Introduction

- Ailments of Egyptian labor market are well known
  - High-levels of youth unemployment, especially among educated workers
  - High degrees of employment informality
  - Low job-quality vs low worker-quality
  - Mismatch between output of education system and needs of labor market

# Introduction

- These ailments can be explained by deficiencies in three areas
  - Supply side of labor market:
    - Production of human capital is inadequate and does not respond adequately to needs of labor market
  - Demand side of labor market
    - Insufficient economic growth to generate enough good jobs in the economy
    - Formal private sector is not growing sufficiently to make up for the decline in formal jobs in the public sector
    - Jobs created have low-skill and human capital requirements
  - Functioning of labor market
    - Rigidities and inefficiencies in the labor market prevent the proper matching of workers to jobs – high labor market frictions and information asymmetries
    - Labor market sends either wrong signals or weak signals as to what investments in human capital to undertake

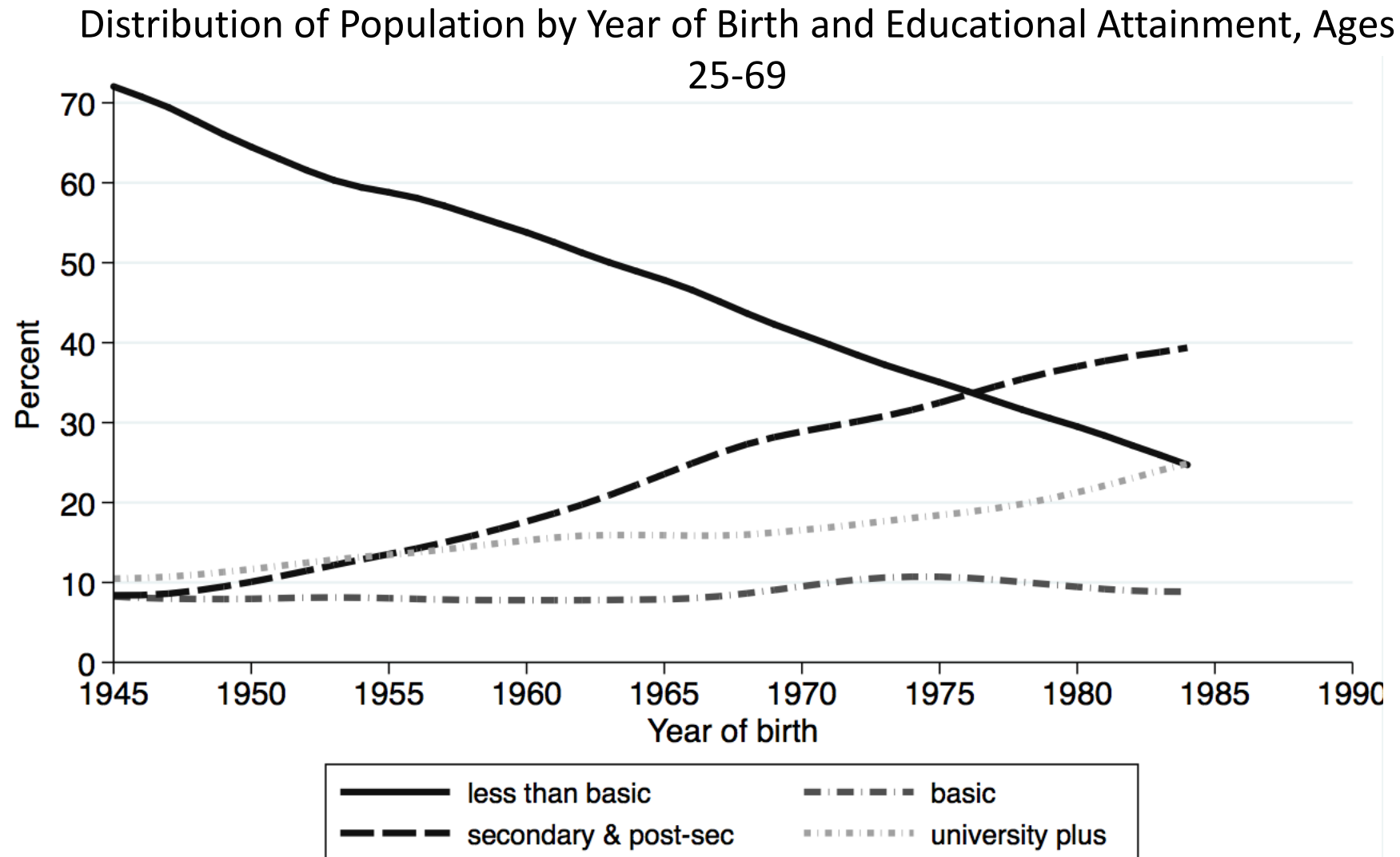
# My argument

- All of these issues exist in the Egyptian labor market
- Important to determine what the binding constraints on better labor market outcomes are at the moment
- I argue that the demand side is currently the binding constraint on job creation at the moment
- Incomplete transition from state-led economy to market-driven economy
  - Formal private sector has not grown sufficiently to make up for long-term decline of the role of the state in the economy
    - We may be returning to a growing role for the state in economic activity
- Sectors such as retail and construction are driving the bulk of job creation in the Egyptian economy at the moment
  - These sectors provide low-quality jobs that do not appeal to the increasingly-educated workforce

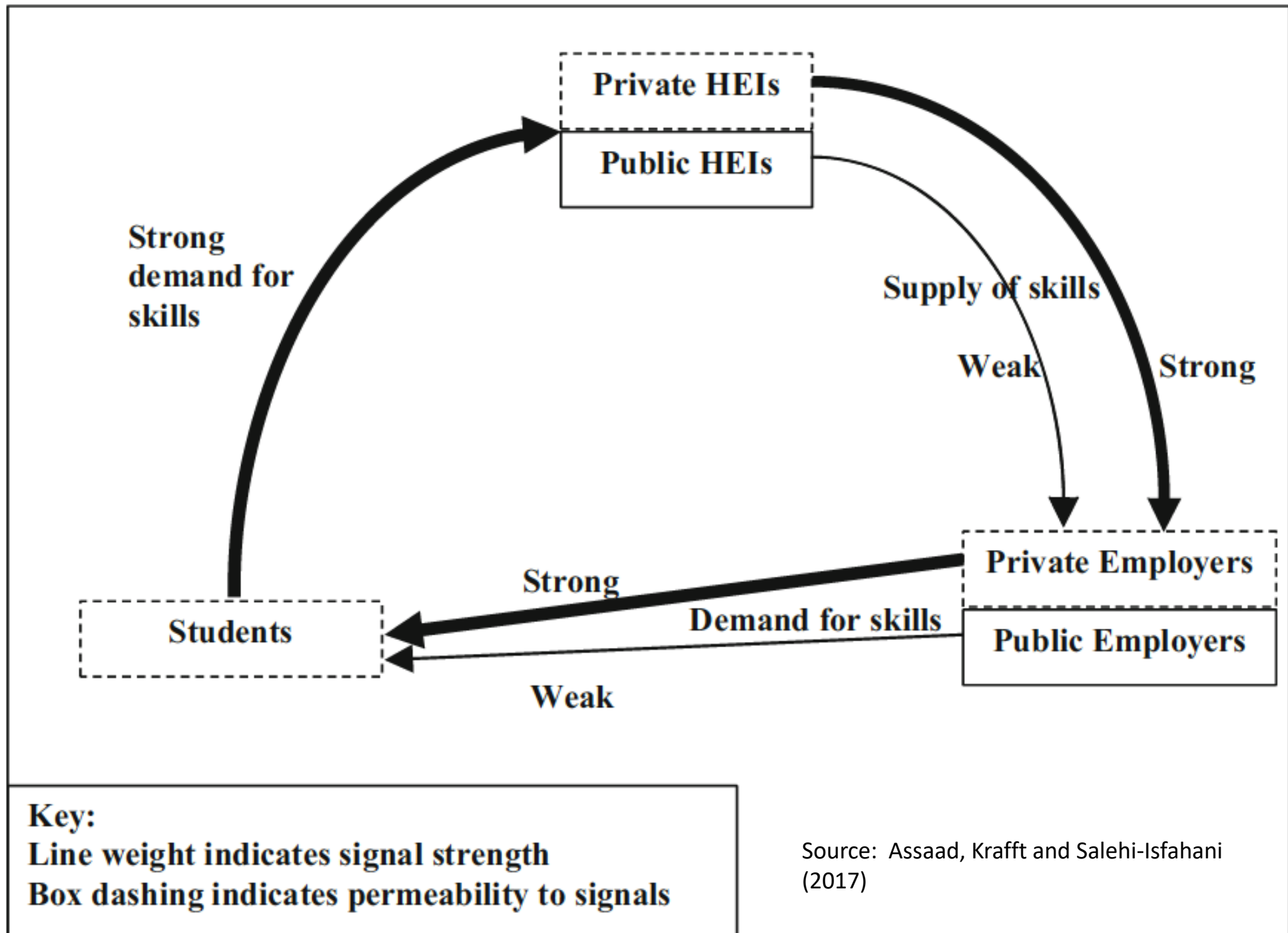
# My argument

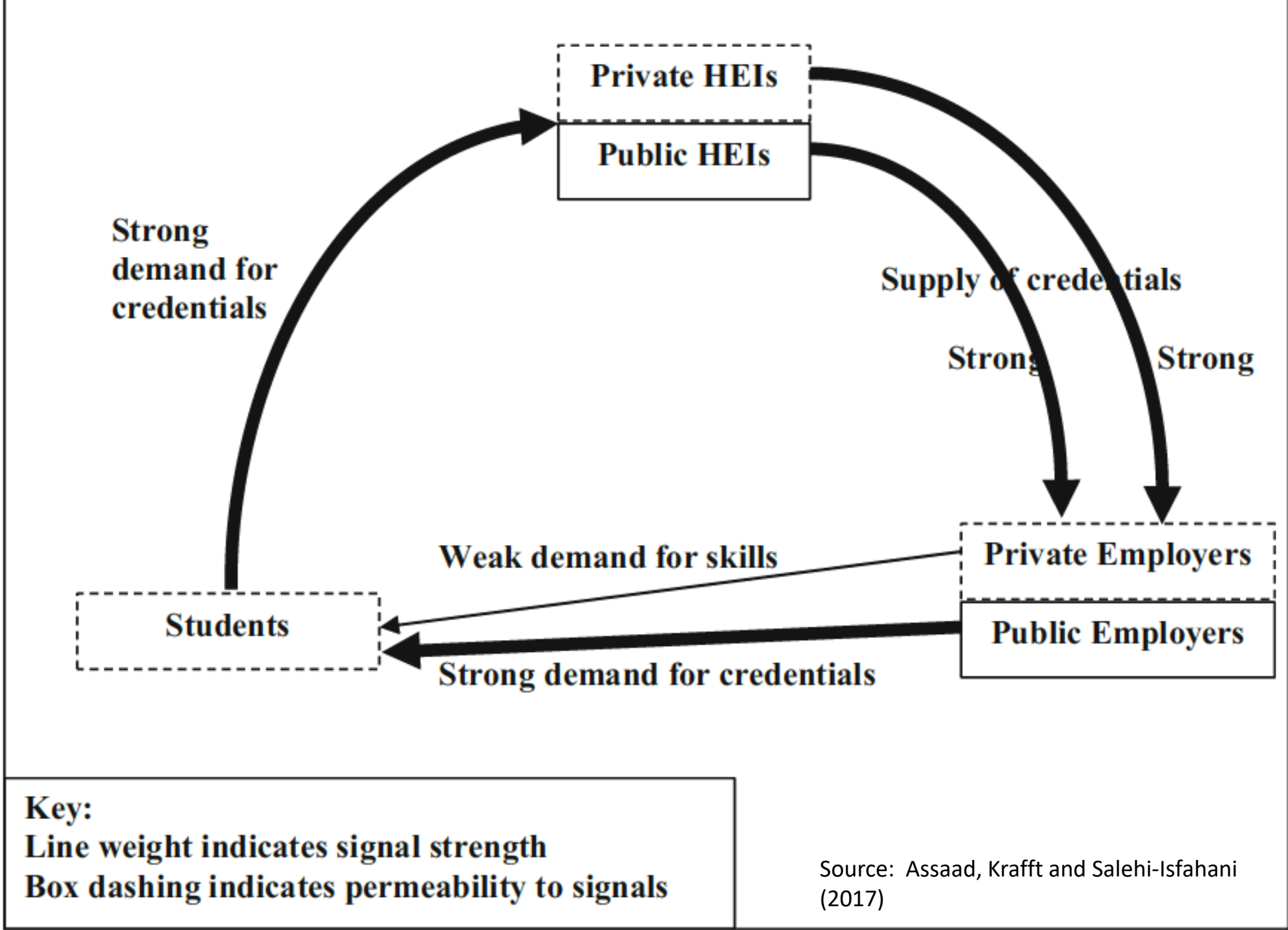
- Previously dominant role of the state in the economy still driving the production of human capital – through what has become known as the “credentialist equilibrium”
- Continued high demand for credentials as opposed to skills due to continued desire to find public sector job
- Education authorities respond to this demand by rapidly increasing the number of seats available in higher education
  - From 1990 to 2015, university education has grown at 5.6% per year, three times the average annual rate of growth of population during this period
  - Technical secondary education has grown very fast as well.

Egyptian population is acquiring educational credentials at a high rate. The acquisition of university education has accelerated since the 1975 birth cohort. The most common educational status now is a technical secondary degree.



Source: CAPMAS,  
Labor Force Survey,  
2008-2016



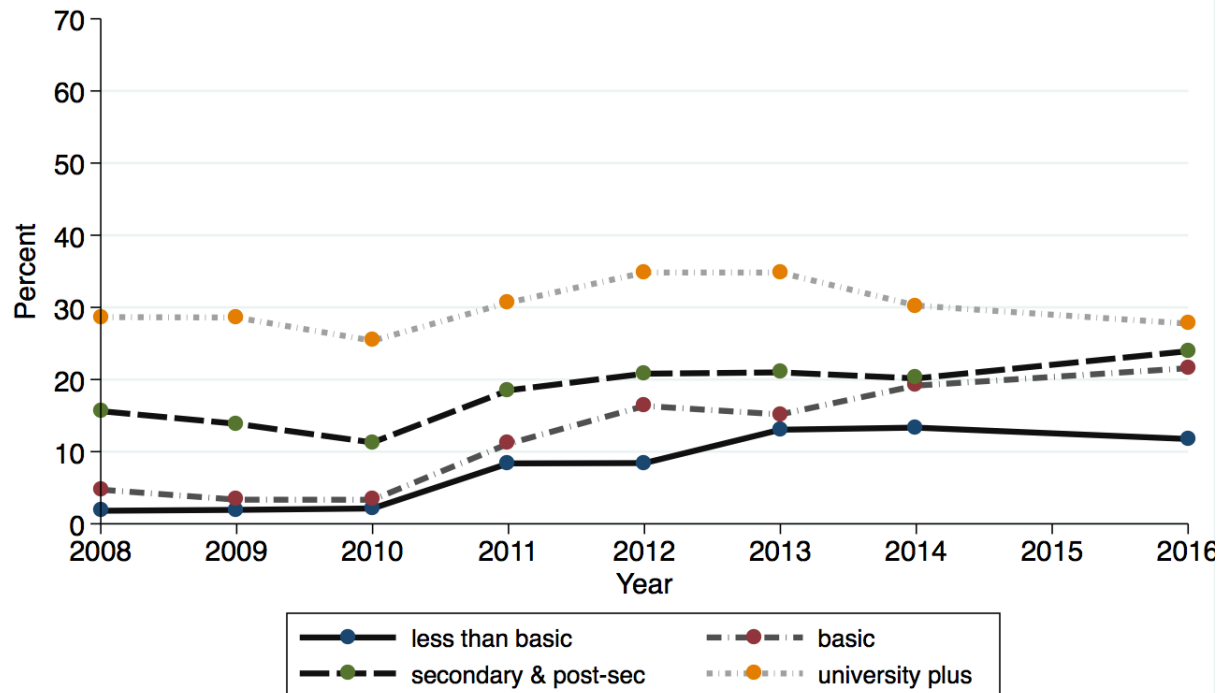




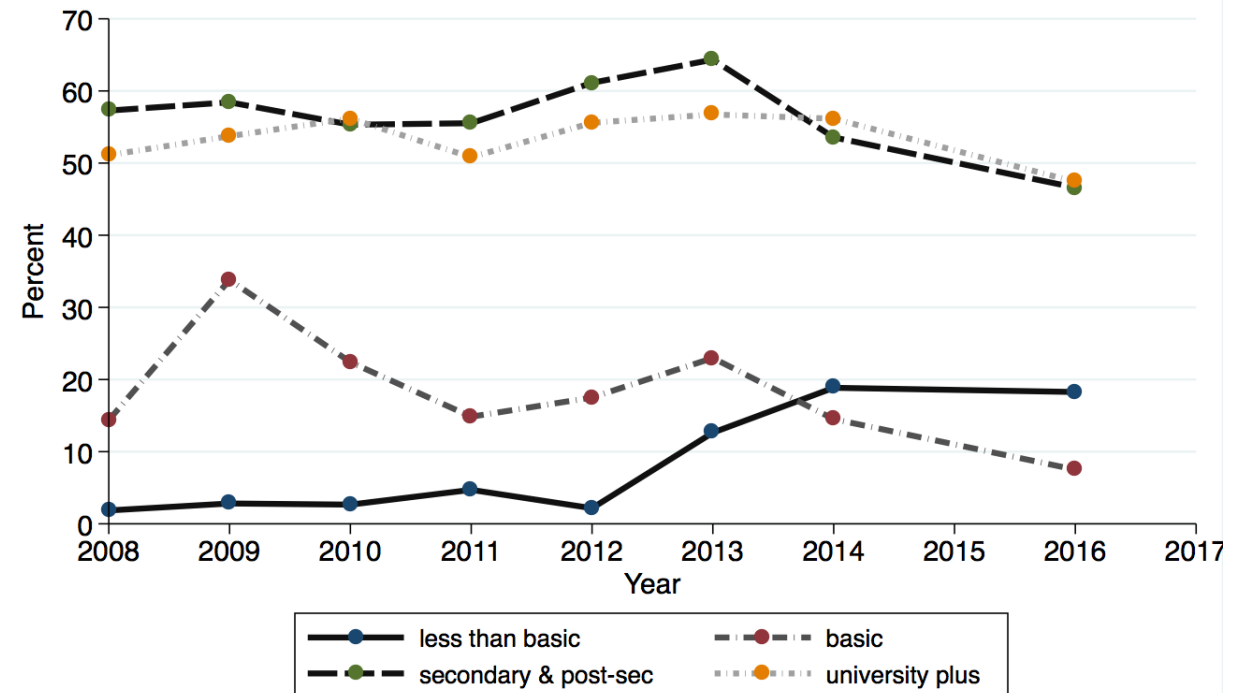
# Unemployment rates among young graduates continue to be very high, although they have declined somewhat in the last couple of years.

## Unemployment Rate by Educational Attainment, Individuals 15-29

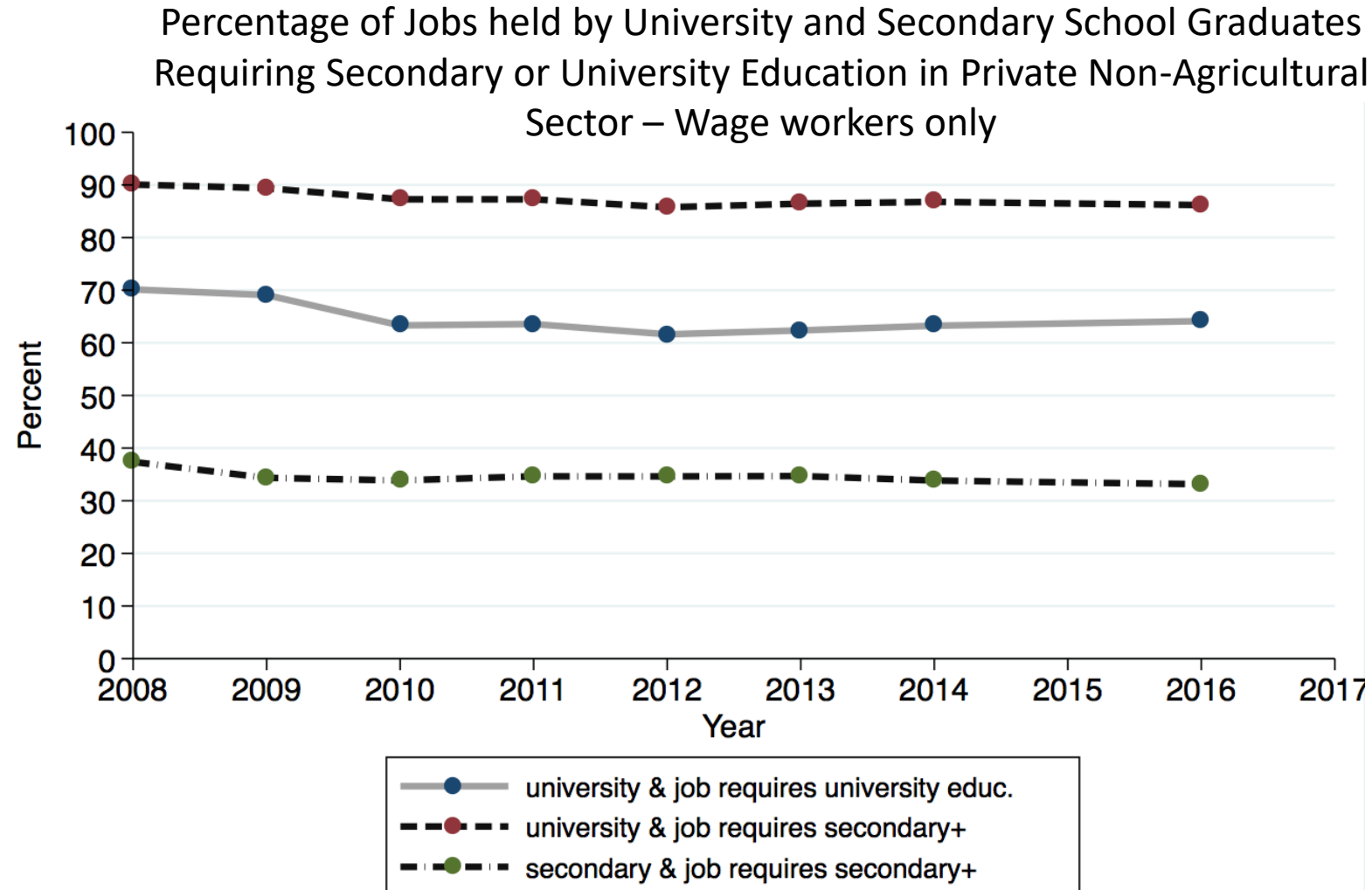
### Males



### Females

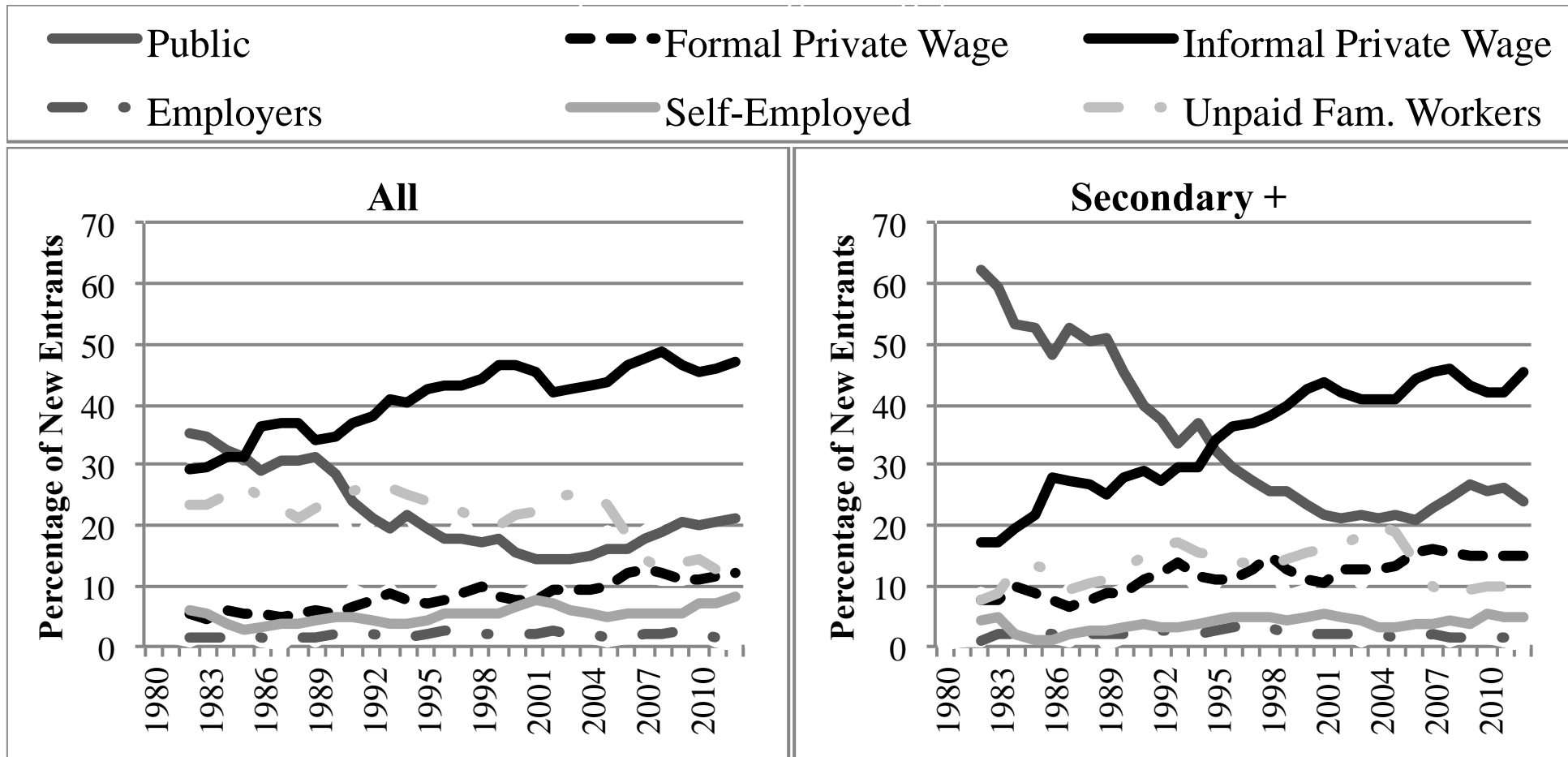


Less than two-thirds of jobs held by university graduates in the private non-agricultural sector require university education. This share is declining over time, indicating increasing over-qualification for the jobs available. Less than 40 percent of jobs held by secondary and post-secondary graduates require secondary education



If we examine retrospective data on the first jobs that people obtained, we can see a dramatic decline in the role of the public sector in Egypt, especially for educated workers. This role was never made up by a commensurate increase in formal private employment

Distribution of Type of First Employment by Year of Entry into Labor Market

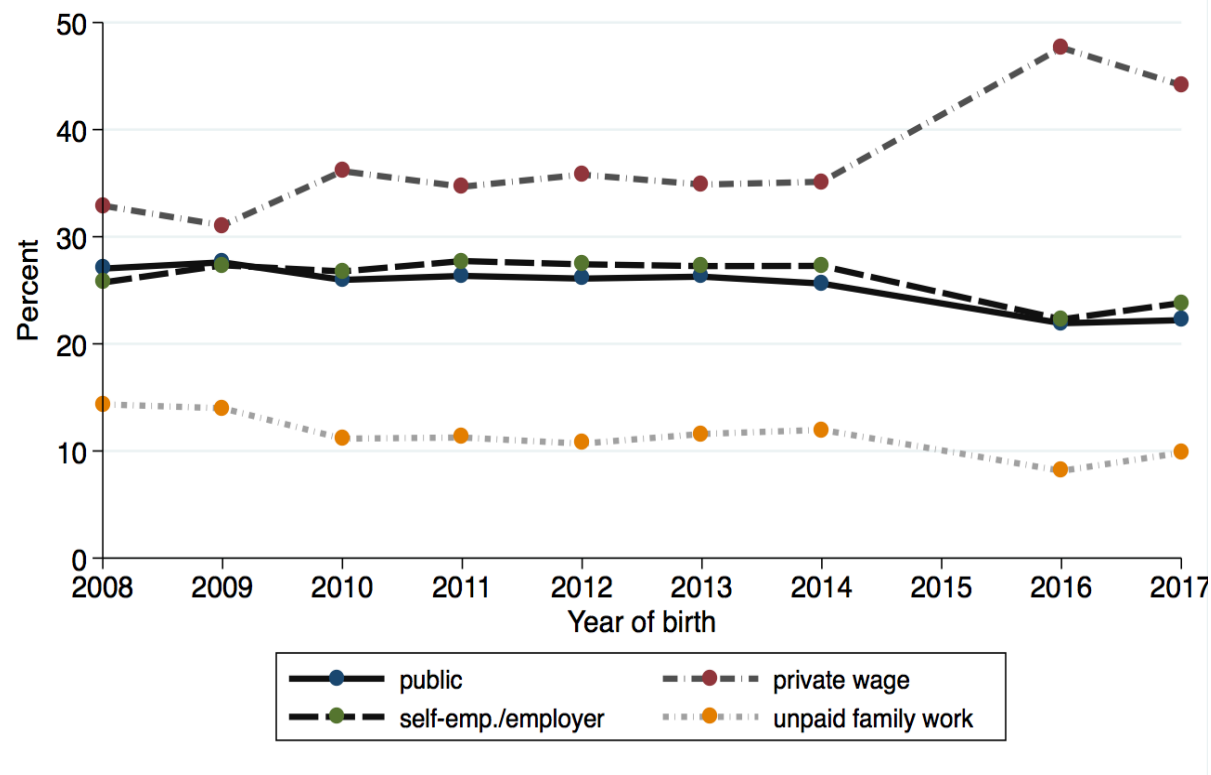


Source: Assaad and Krafft (2015)

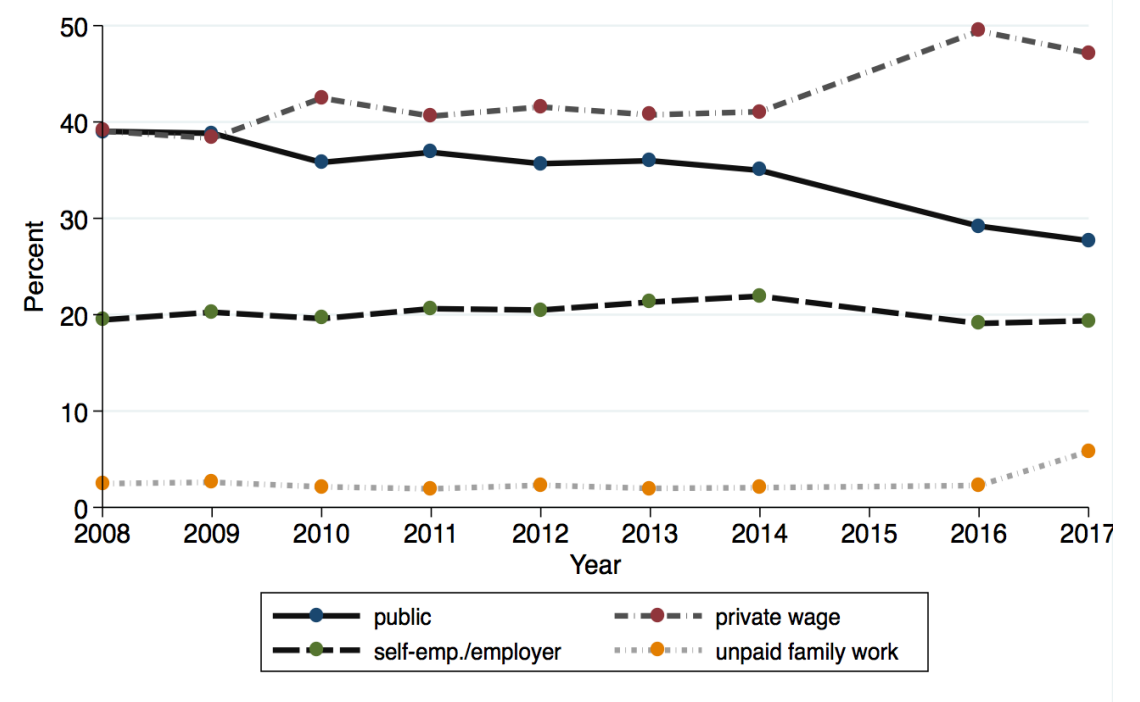
# Both public sector employment and family-based employment are declining and the share of private wage employment is increasing

## Distribution of Employment by Type of Employment, 2008-2017

### Including agriculture



### Excluding agriculture

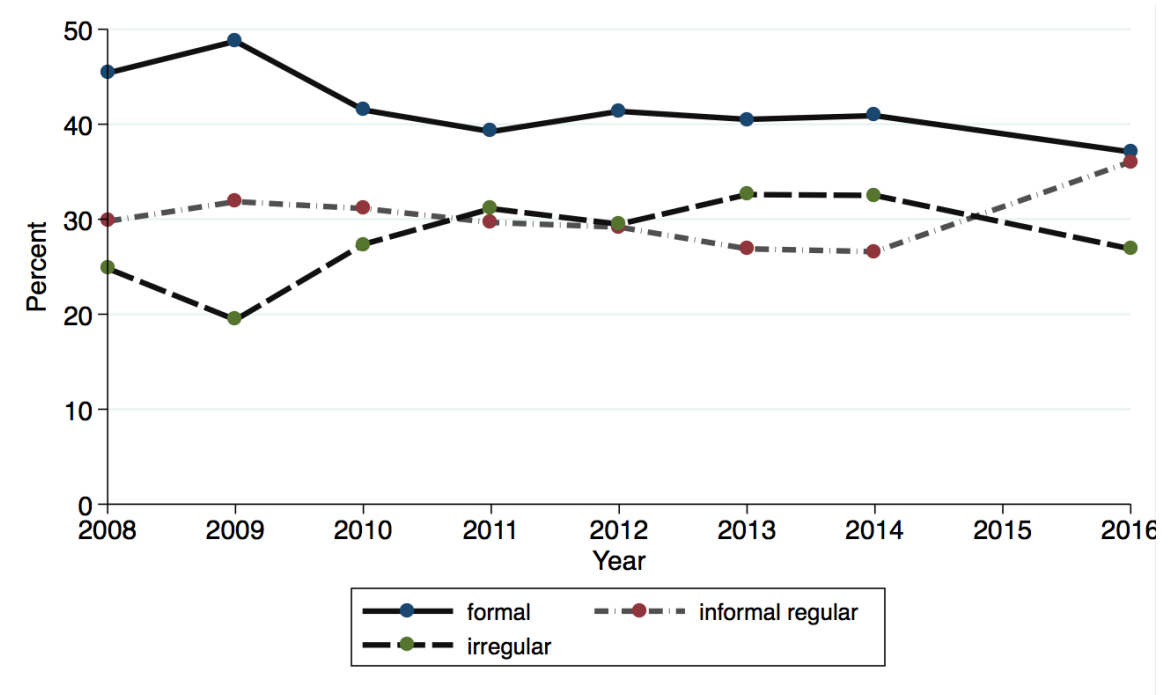
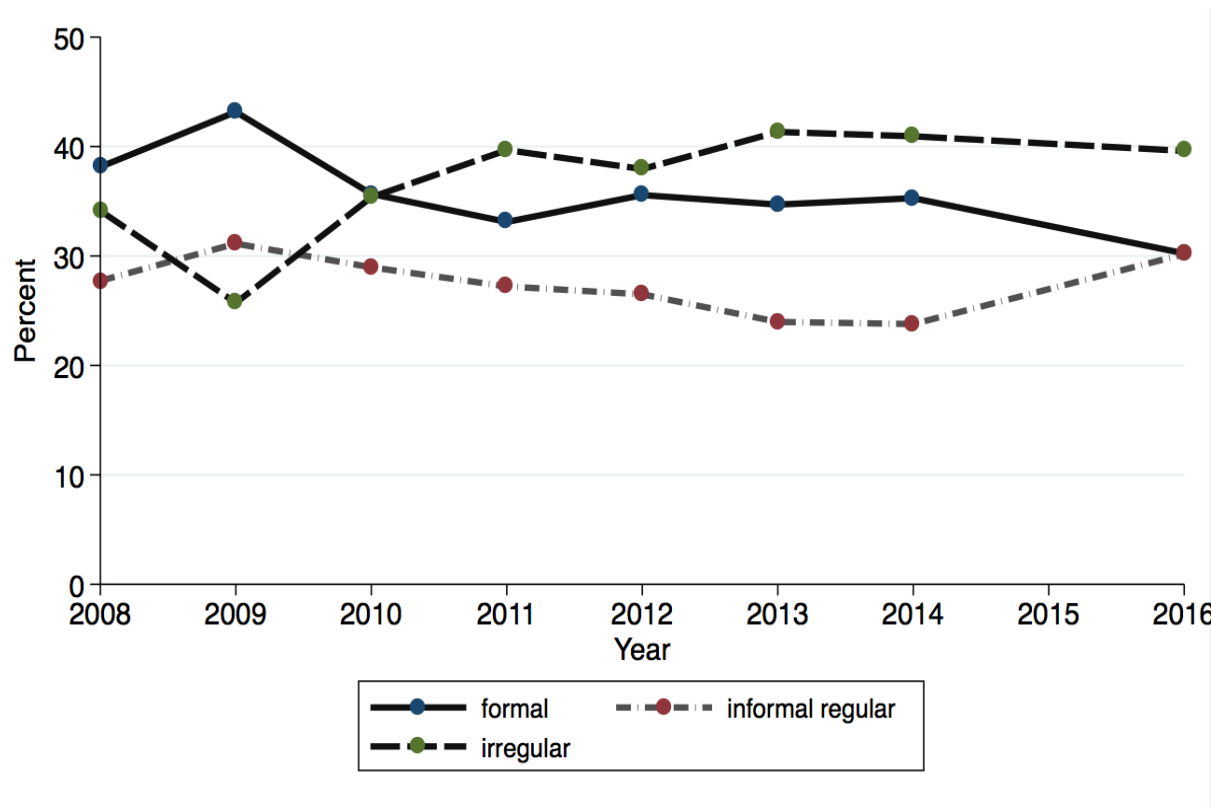


However, the share of formal private employment is declining over time and that of irregular and informal employment is rising. The private labor market is becoming more precarious.

### Distribution of Private Wage Employment by Formality and Regularity Status

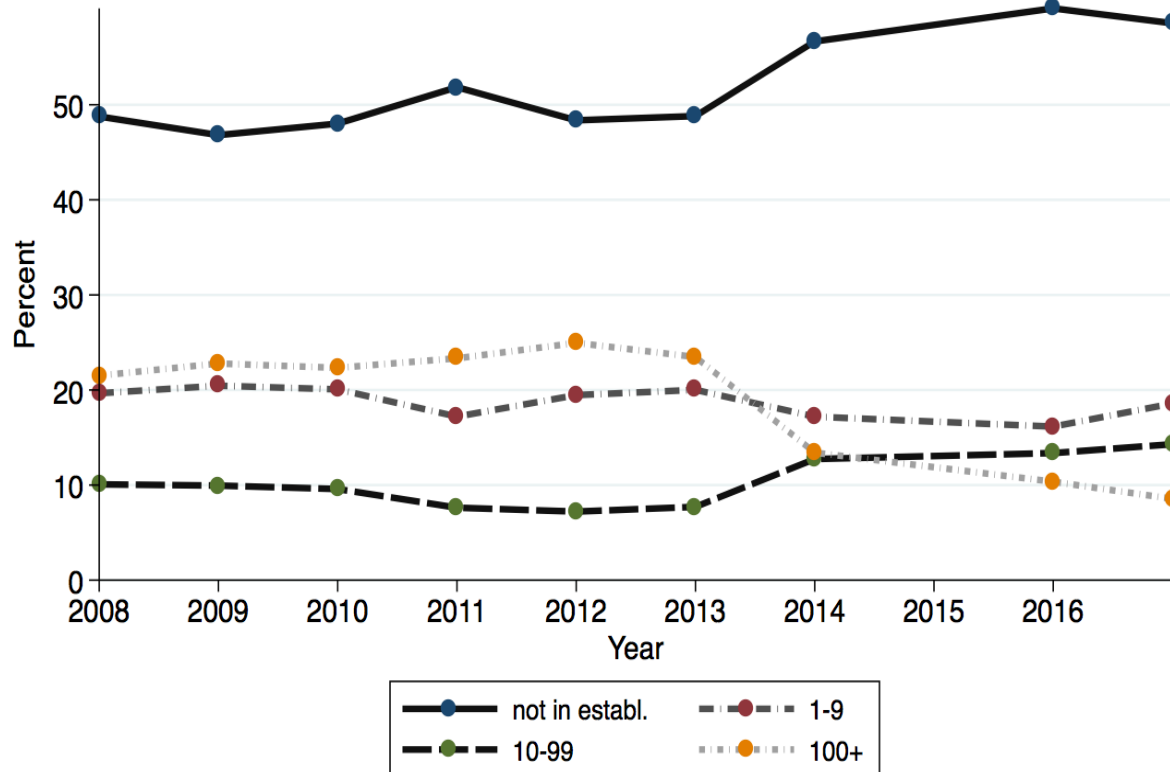
Including agriculture

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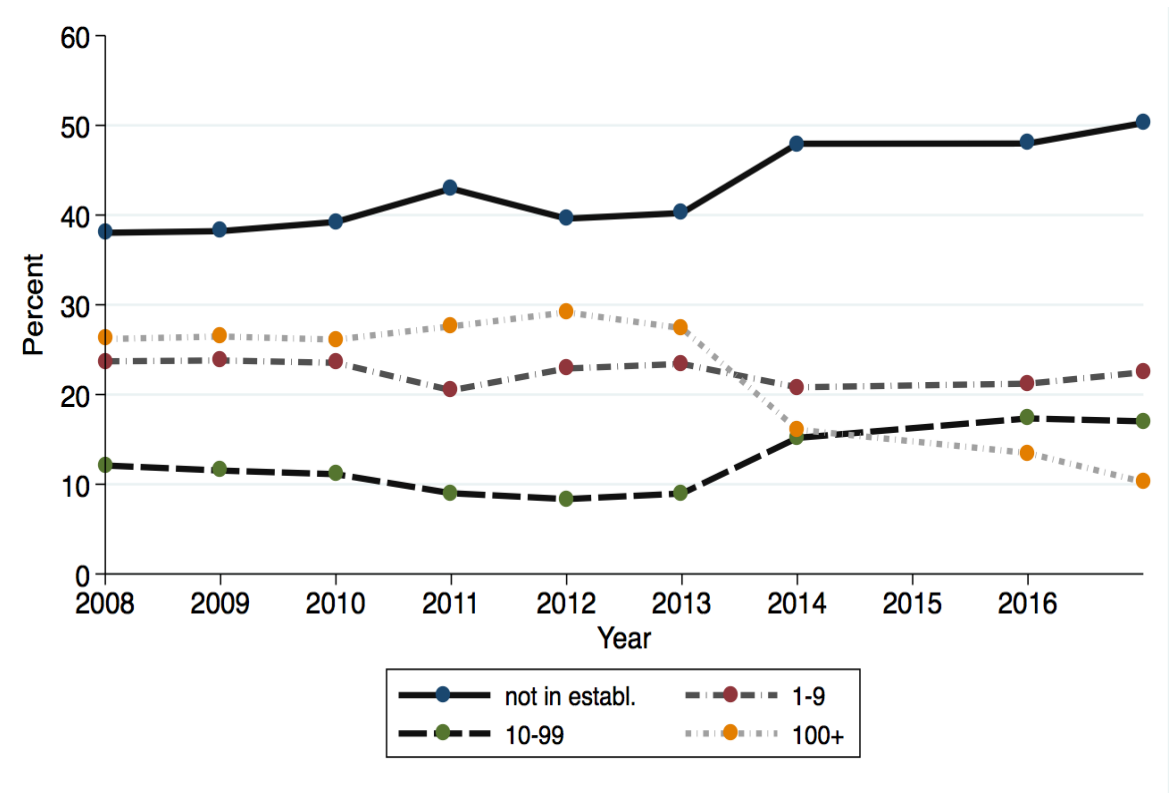


# There is more employment outside fixed establishments and less employment in large enterprises

## Including agriculture

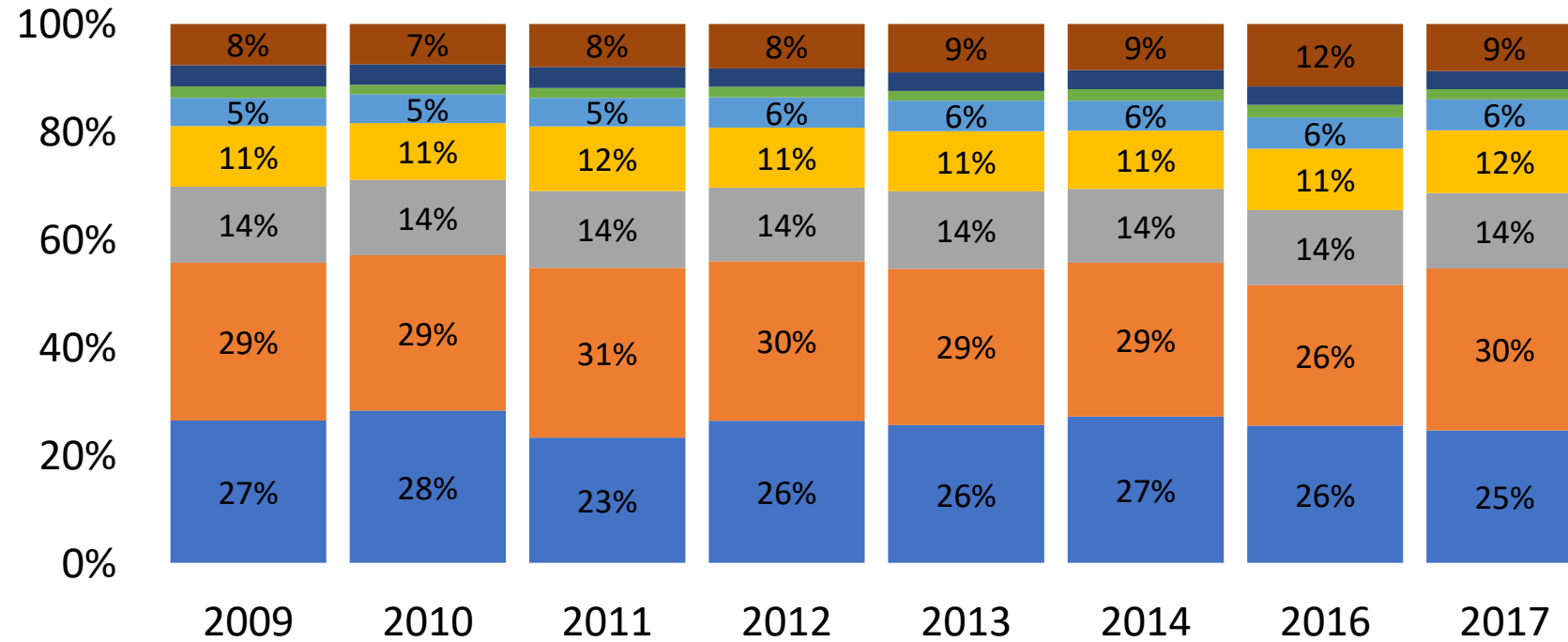


## Excluding agriculture



Construction has played an outsize role in private non-agricultural wage employment. Jobs in construction tend to be intermittent and lack any kind of social protection. If we add trade and transport, we account for 55-56% of private non agricultural wage employment.

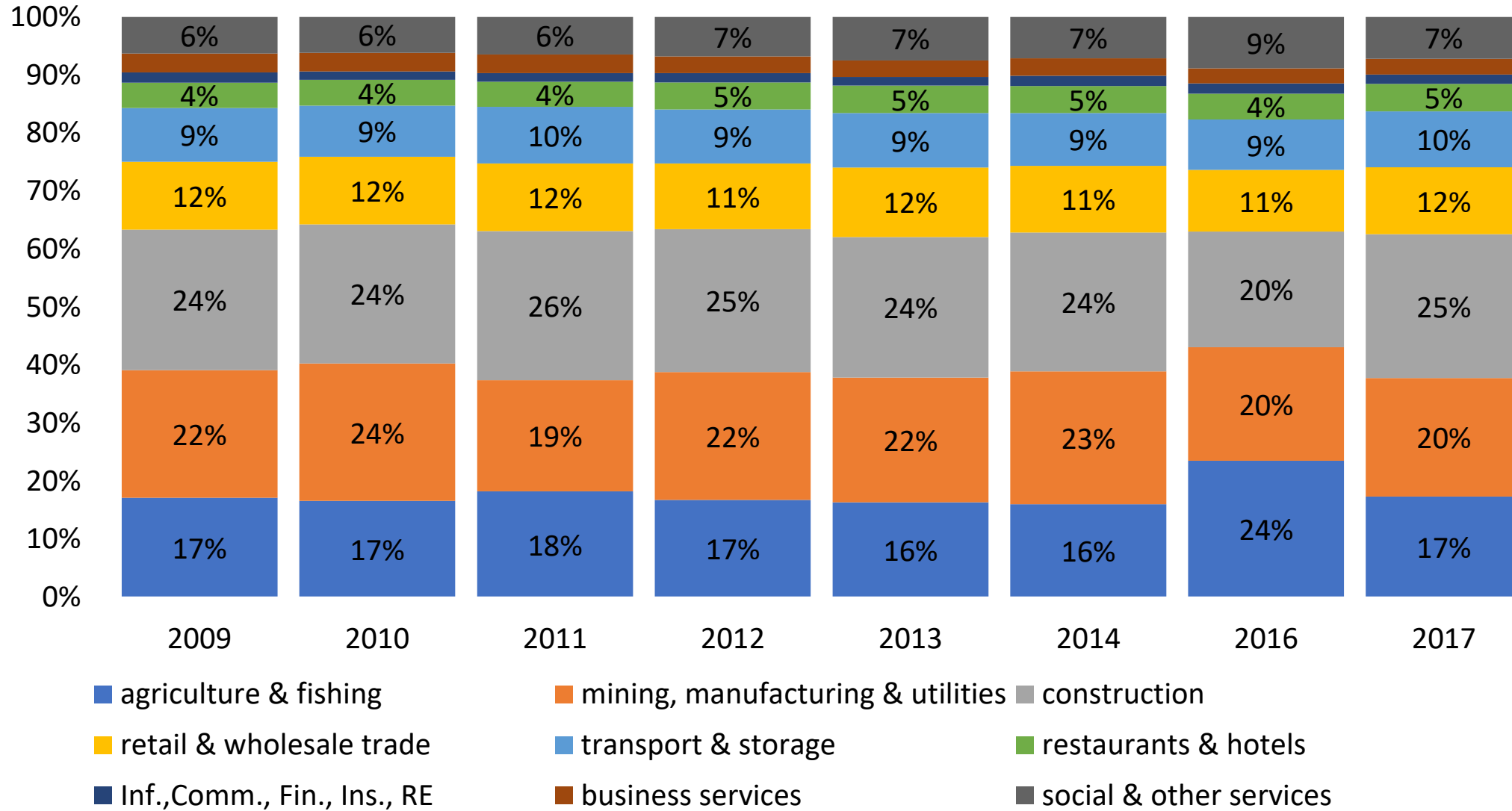
Distribution of Private Non-Agricultural Wage Employment by Industry



- mining, manufacturing & utilities
- construction
- retail & wholesale trade
- transport & storage
- restaurants & hotels
- Inf., Comm., Fin., Ins., RE
- business services
- social & other services

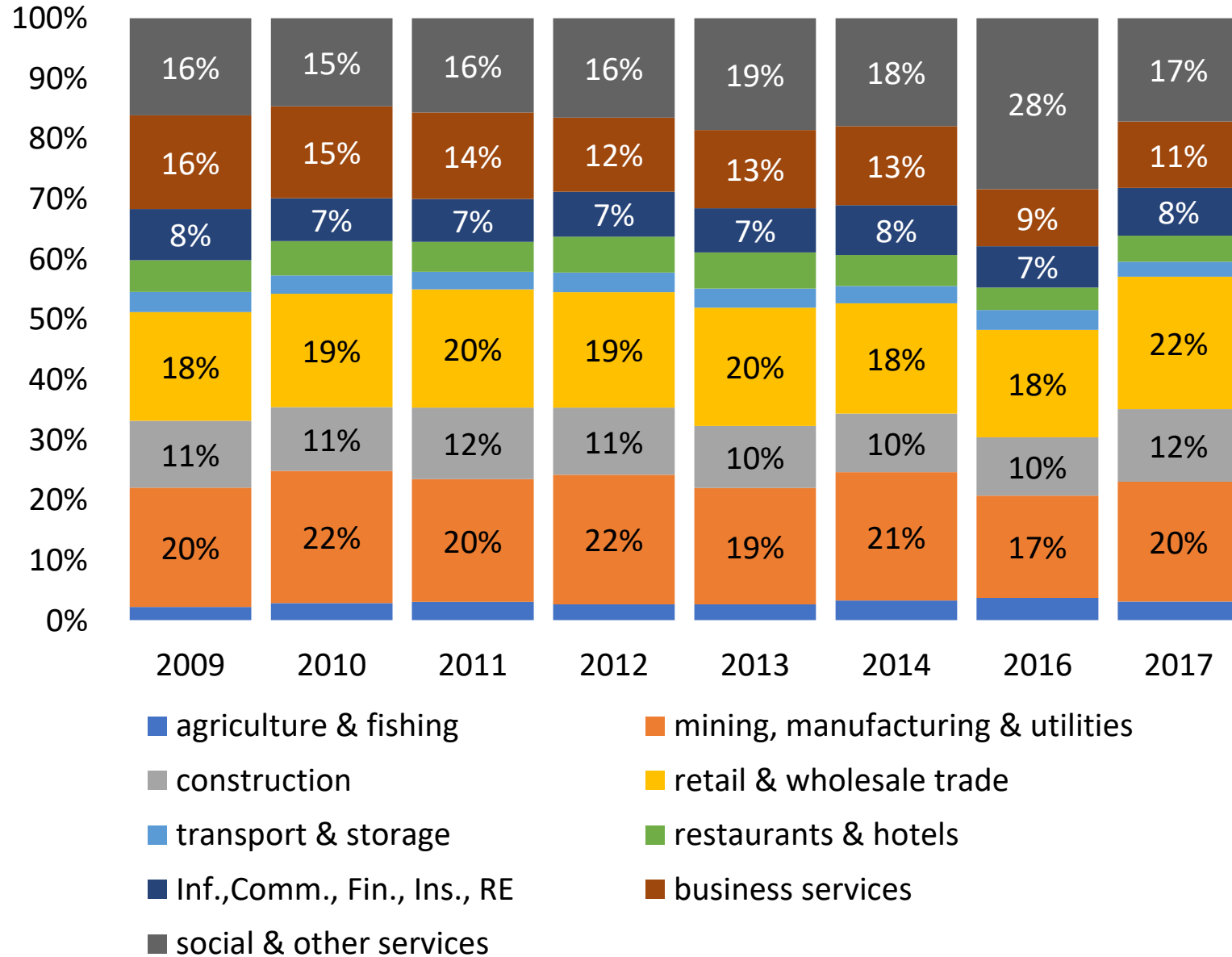
# Adding agriculture back in does not alter picture very much

## Distribution of Private Wage Employment by Industry





## Distribution of Private Sector Wage Employment for University Graduates by Industry



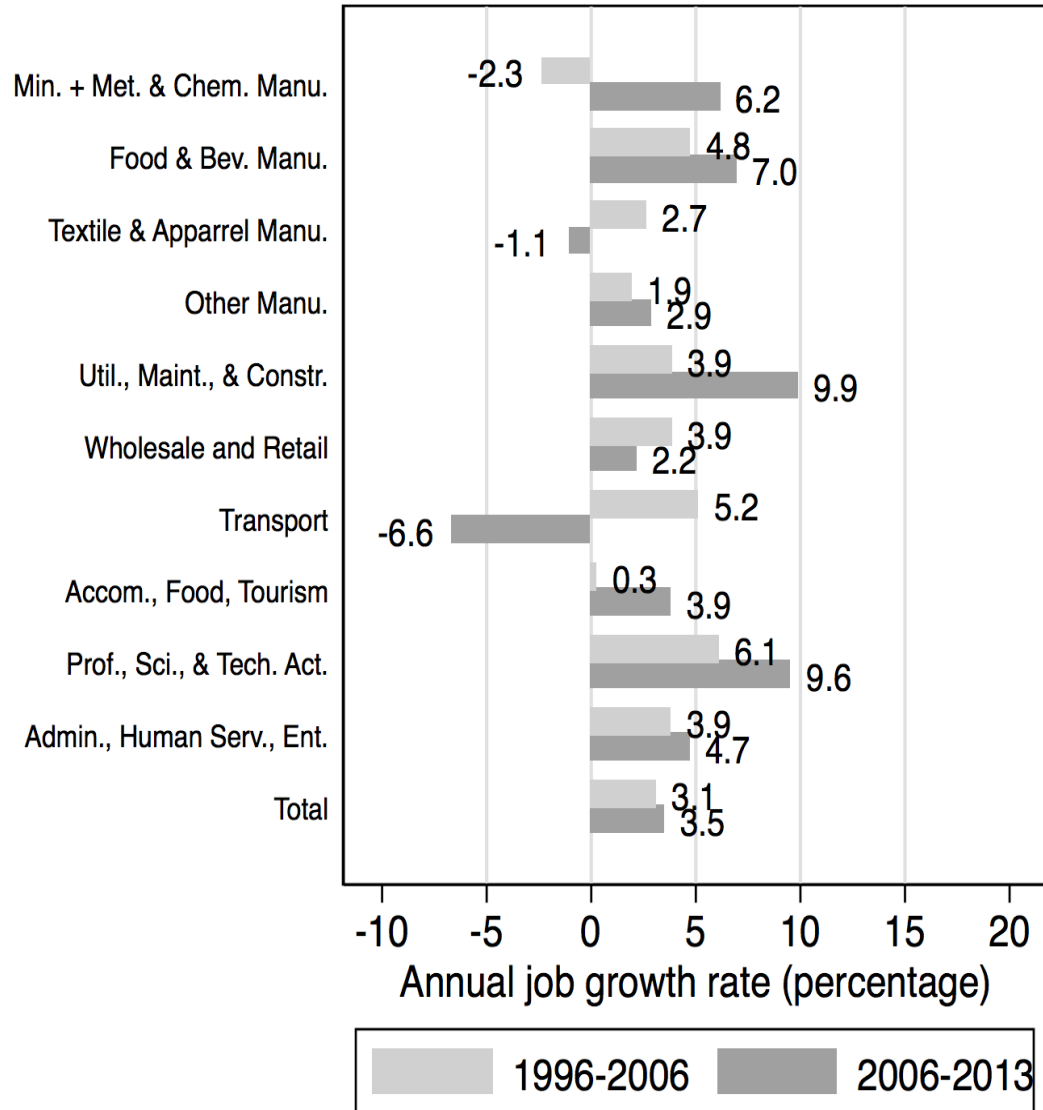
# Where are jobs being created in the Egyptian economy?

A look at establishment and economic census data

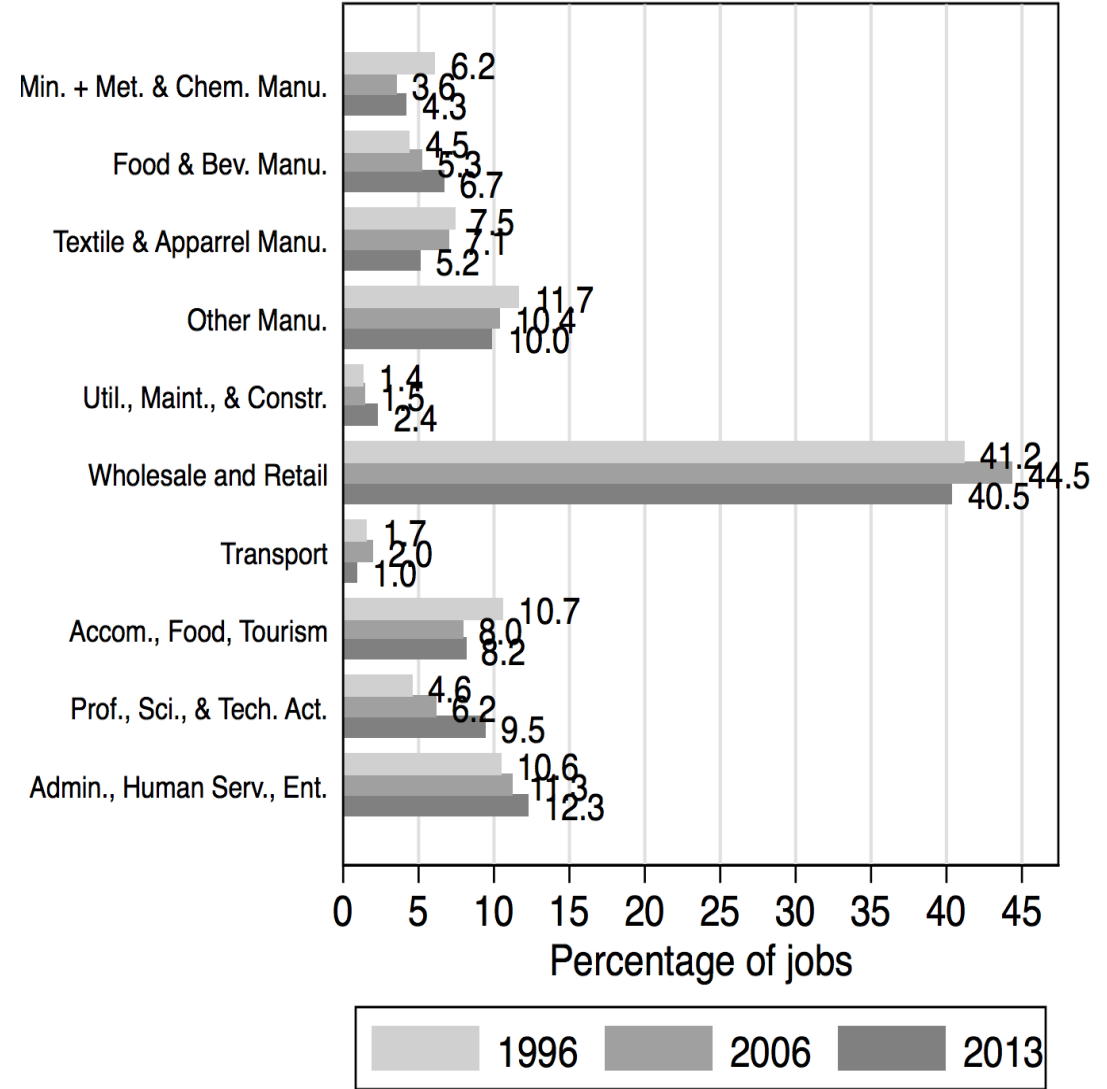
Assaad, R., C. Krafft and S. Yassin. "Job creation or labor absorption? An analysis of private sector employment growth by industry in Egypt." Economic Research Forum manuscript.

If we look exclusively at the in-establishment segment of the private sector, trade makes up nearly 40 percent of jobs. Most jobs in construction and transport are outside establishments.

### Job creation



### Job composition



# Study results

- Job creation within establishments has taken place in industries where firms are:
  - Small
  - Relatively informal
  - Relatively new
- Consistent with a labor absorbing role of the informal economy rather than one led by large, dynamic, and growing firms
- No significant relationship between job creation and Total Factor Productivity, suggesting that jobs are not being created at higher rates in more productive firms

# Conclusions

- Composition of labor supply is increasingly shifting toward more educated workers but economy is not creating jobs with greater human capital requirements
- Private sector is creating jobs in a few sectors that do not appeal to educated workers, namely construction, trade, and transport
- These sectors offer mostly informal jobs, outside fixed establishment, and that are often precarious and intermittent
- This pattern of job creation reveals fundamental problems in Egypt's investment climate rather than simply problems in the working of the labor market or in the quality of labor supplied.

# Conclusion

- Young people and their families are getting signals saying that the private sector provides poor-quality jobs that don't require education
  - It is therefore best to invest in credentials and compete for the few public sector jobs on offer, thus sustaining the “credentialist equilibrium”
- Education acquired social value well outside its economic returns
  - Unlikely that low returns to education in private sector will result in less investment in education
  - However weak signals from private sector regarding the acquisition of skills are not challenging the credentialist equilibrium