



Wages, Industrial Policy and Social Justice.

'One Size Does Not Fit All'

THE EGYPTIAN CENTER FOR ECONOMIC STUDIES.

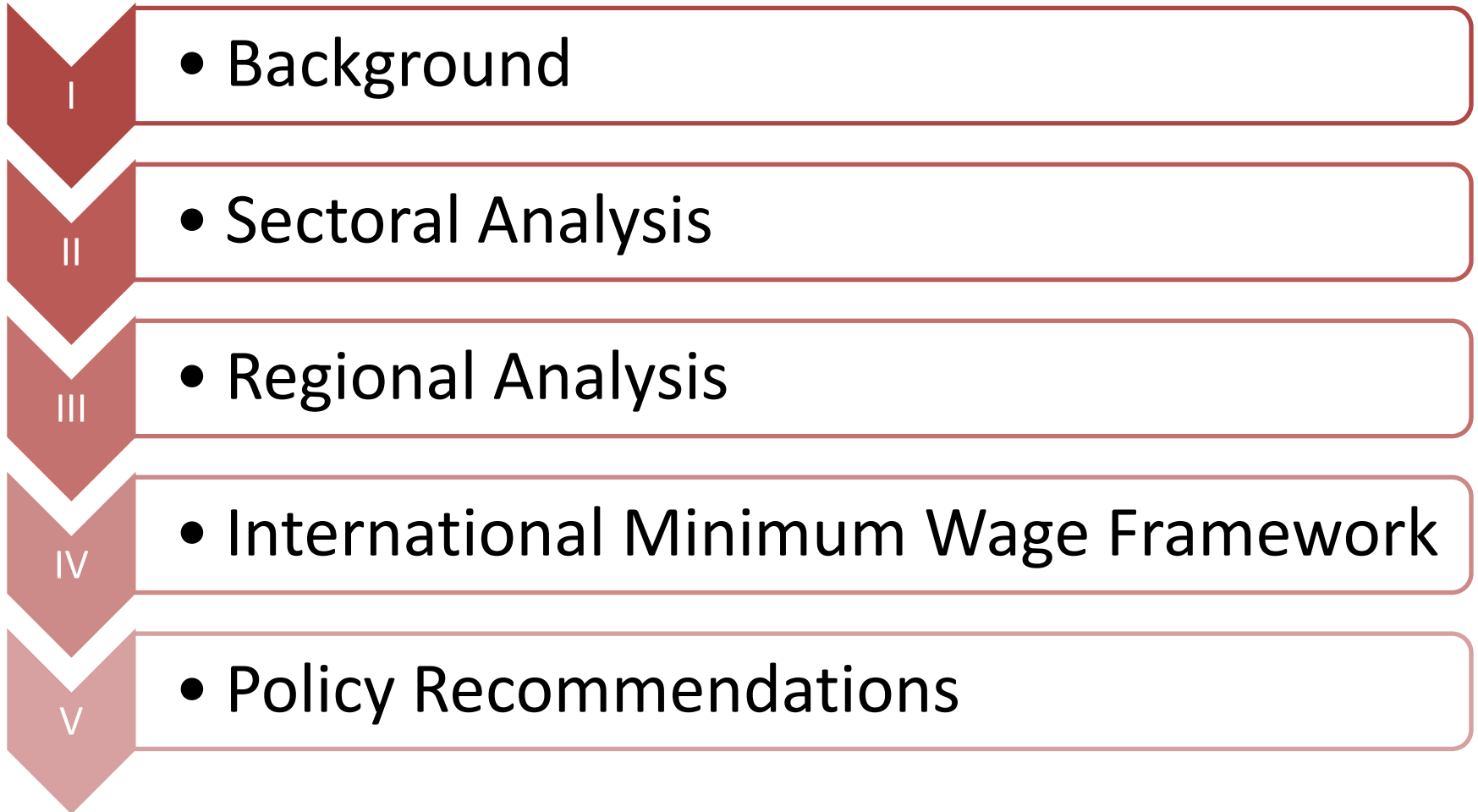
ECES, 2012.

Magda Kandil & Omneia Helmy.

Motivation

- The issue of *Social justice* has taken the fore post January 25th Revolution.
- *Efficient allocation of investment*, in line with sectoral productivity figures, pave the way towards job creation, inclusive growth and social justice.
- To inform the ongoing debates regarding *the minimum wage policy*, variation in the minimum wage should take into account intra-national disparities in the cost of living and productivity.

Structure

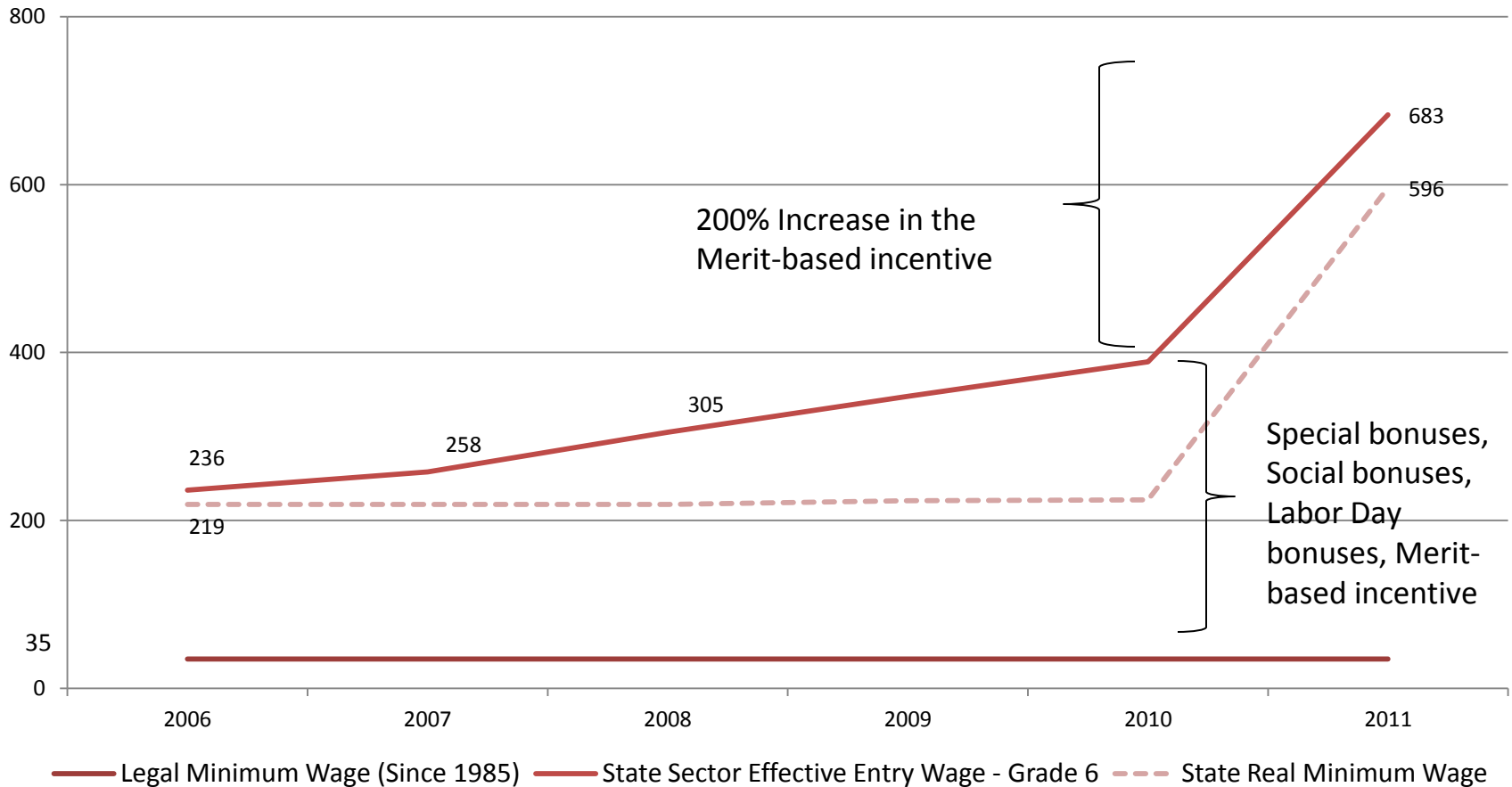


I. Background

- New Minimum Wage Policy in Egypt
- Wages Distribution across Sectors and Governorates

The Minimum Wage Policy in Egypt

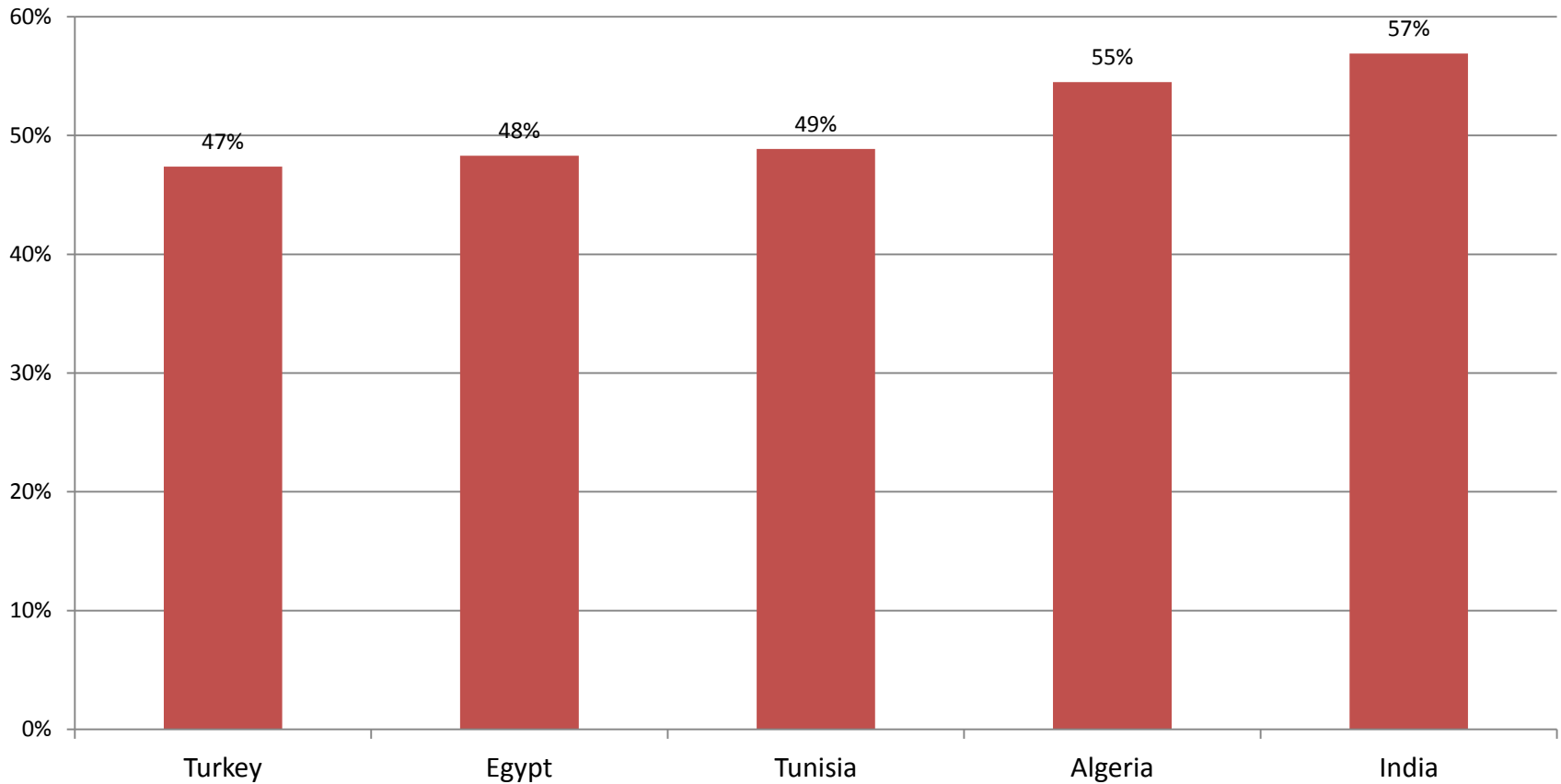
Reveals imbalances reflecting distortion in the wage structure, driving a wedge between public sector wage and legal minimum wage.



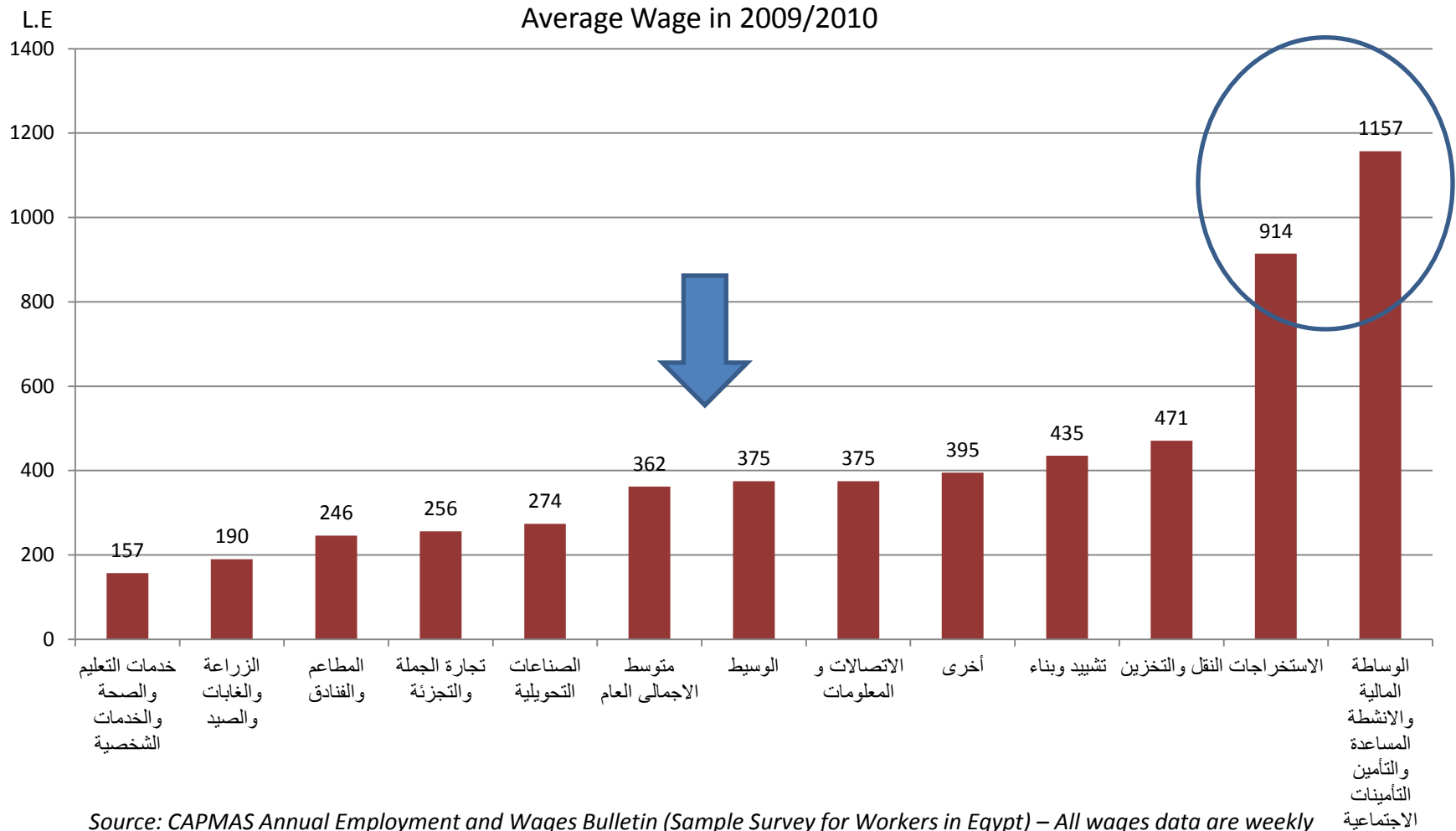
Source: The Employment and Wage Effect of MW in the Egyptian Public Sector (Noha S. Omar & Heba Abdel Latif) – CPI: WDI Data; except for 2011 CAPMAS CPI used – State Sector: Government Sector, Public Sector and Public Enterprise Sector.

Following stipulation to raise the minimum wage recently, its share of per capita GDP is in line with Egypt's comparators.

% of Minimum Wage to Nominal Per Capita GDP (\$), 2010

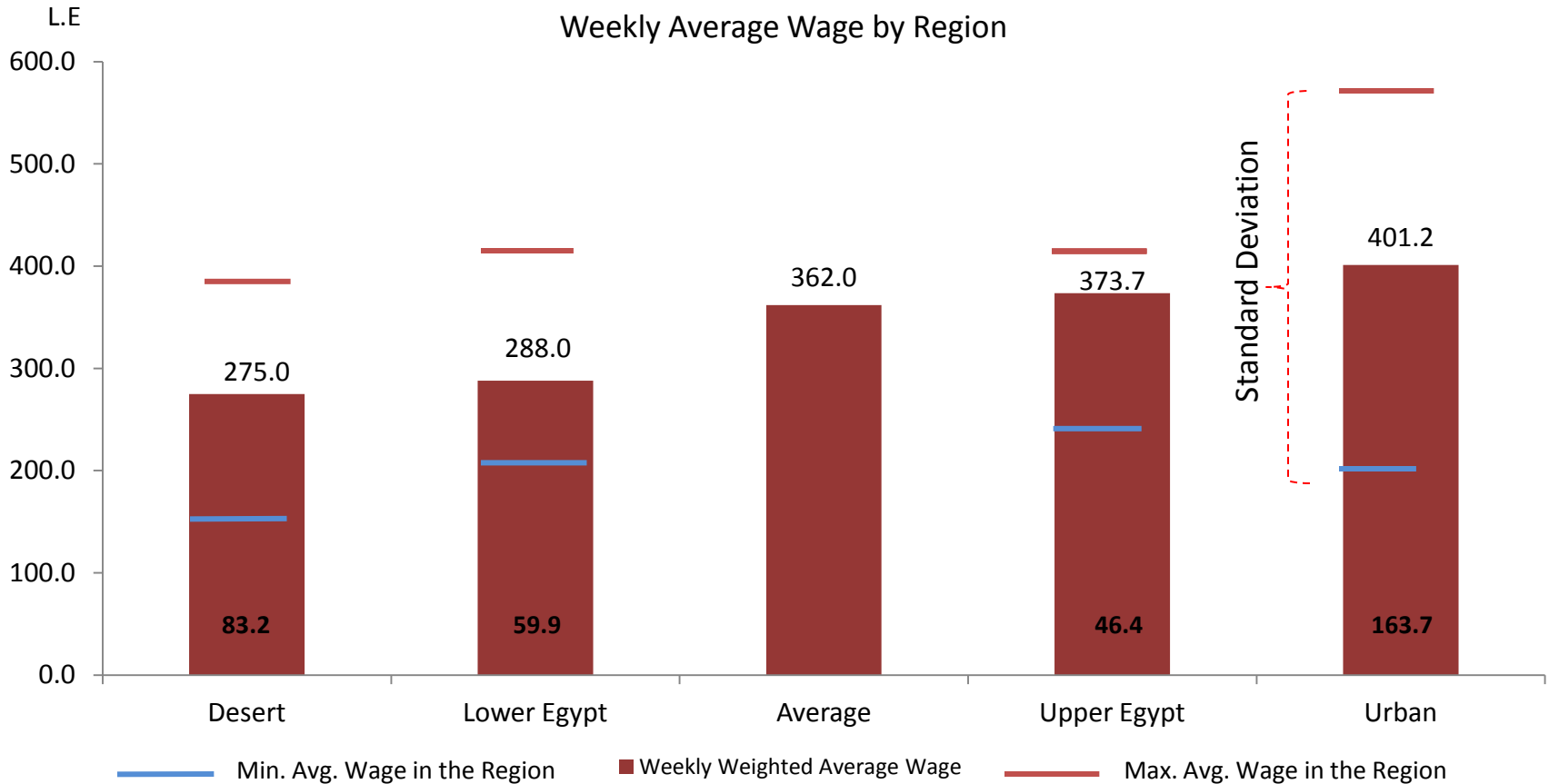


Across sectors, average wage is inflated on account of higher wages in both the financial intermediation and mining sectors.



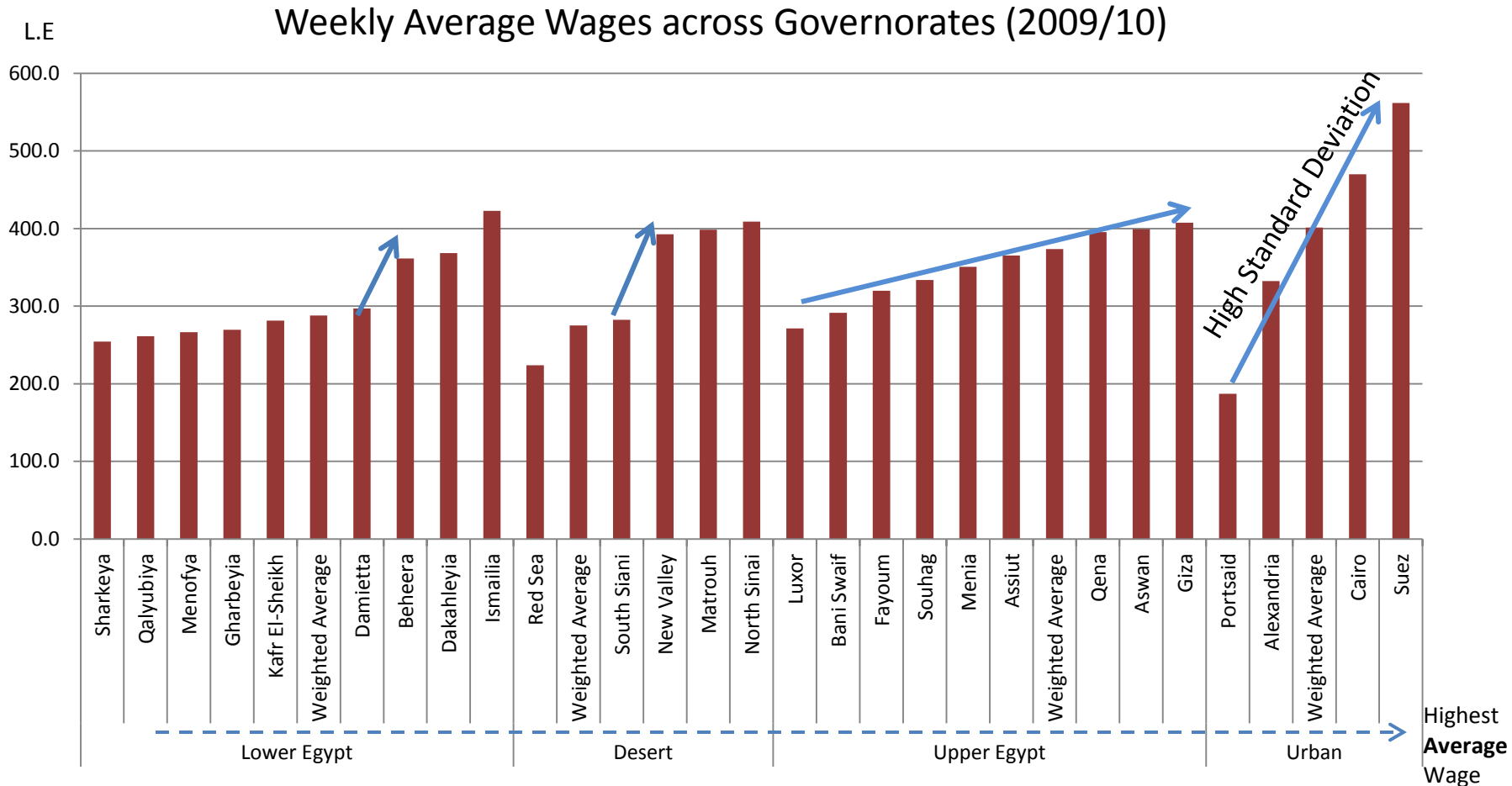
Source: CAPMAS Annual Employment and Wages Bulletin (Sample Survey for Workers in Egypt) – All wages data are weekly weighted averages.

Across regions, even though urban areas fair the highest with w. average of L.E 401/week, while desert areas fair the least with w. average L.E 275/week. However...



Source: CAPMAS Annual Employment and Wages Bulletin (Sample Survey for Workers in Egypt) – All wages data are weekly weighted averages.

...The highest disparity of wage earnings is across urban areas, followed by desert areas, Lower Egypt and finally Upper Egypt.

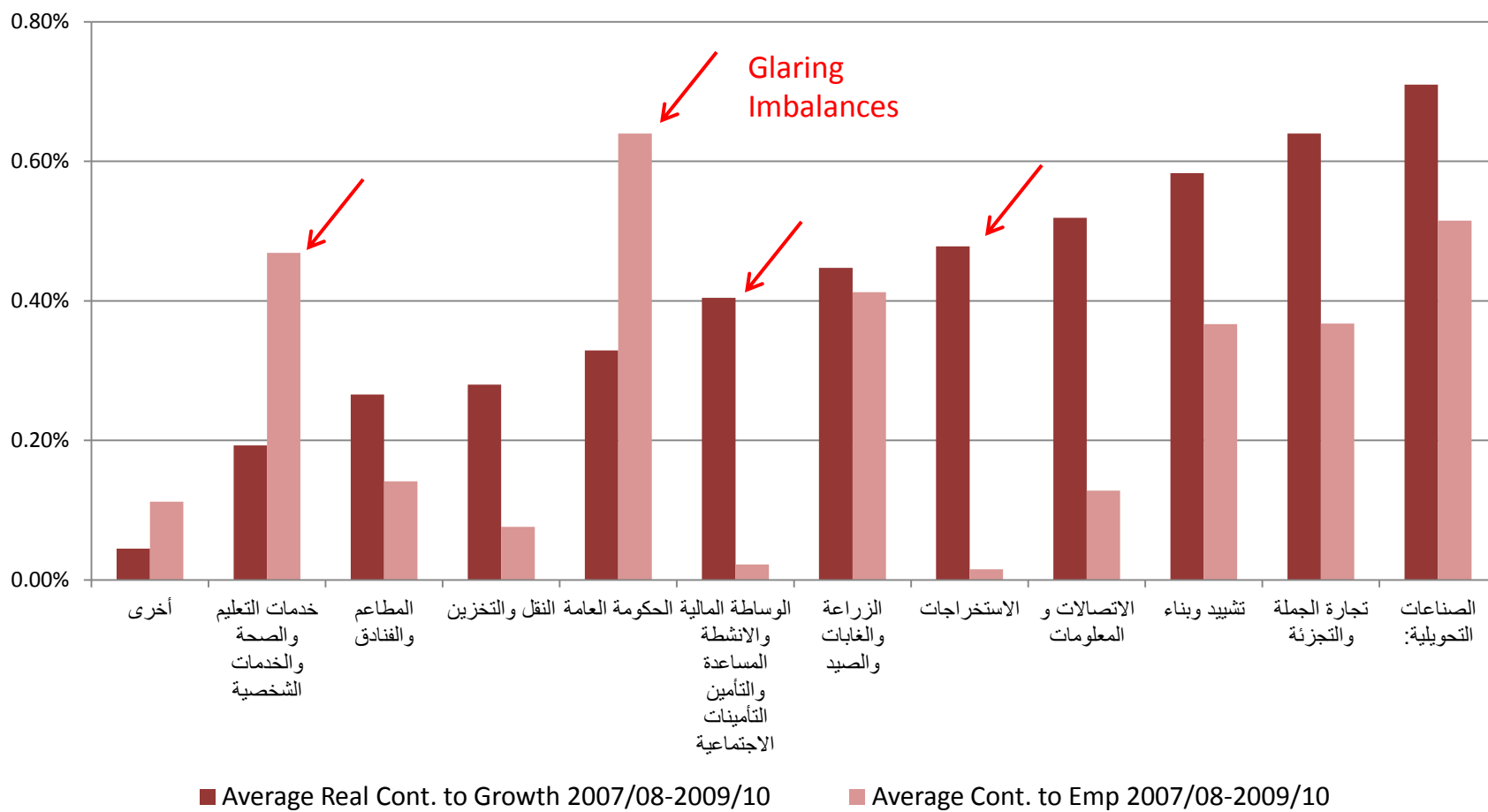


Source: CAPMAS Annual Employment and Wages Bulletin (Sample Survey for Workers in Egypt) – All wages data are weighted by employment.

II. Economic Sectors Analysis

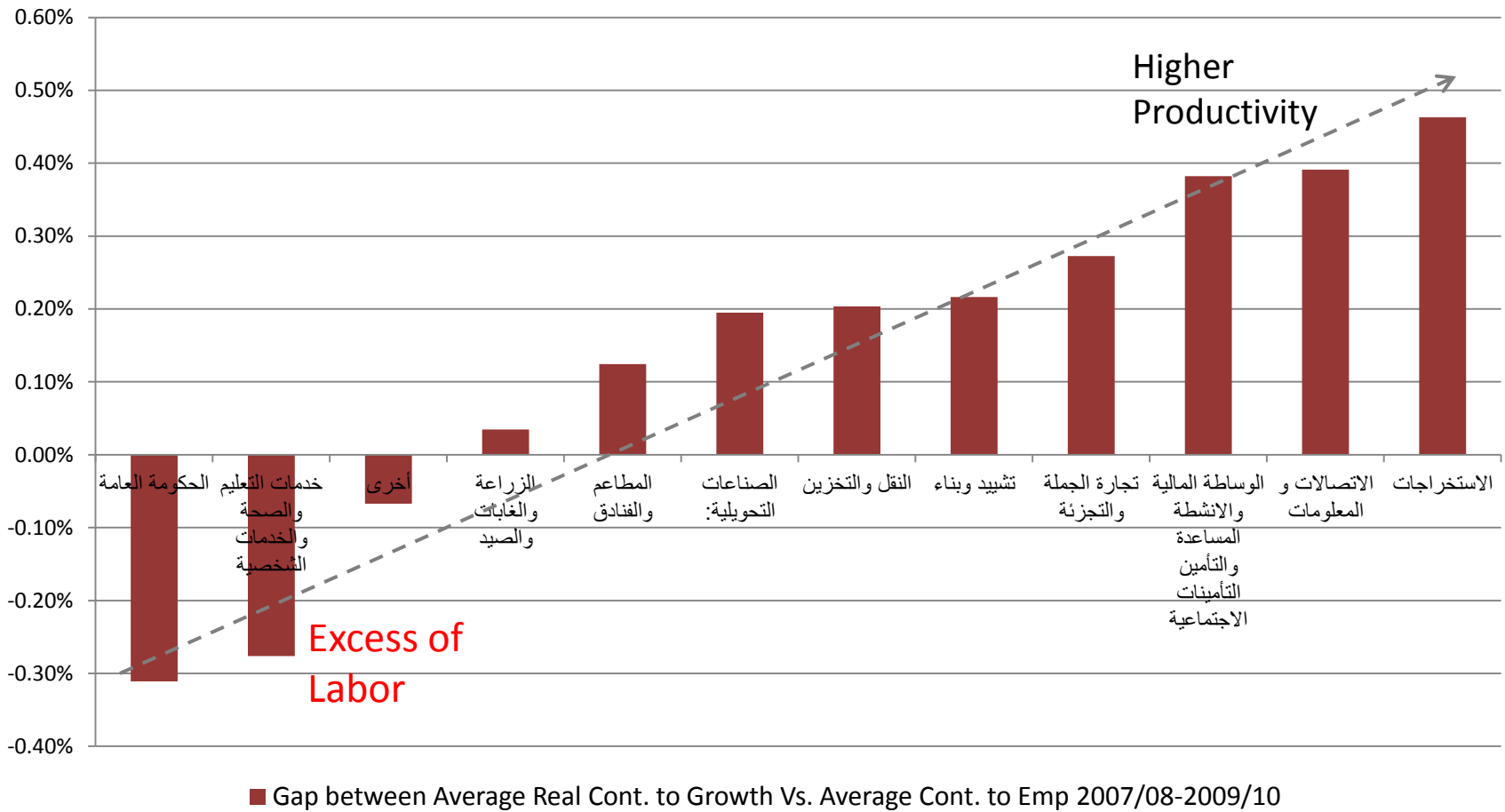
- Sectoral contribution to real growth and employment growth in light of ownership
 - Sectoral nominal wages and productivity growth
- Returns to sectoral shares of investment in terms of employment or productivity growth.

1. Average sectoral contribution to real growth and employment (2007/08-2009/10) reveal unbalanced shares of the job content: reflecting poor distribution of value added.



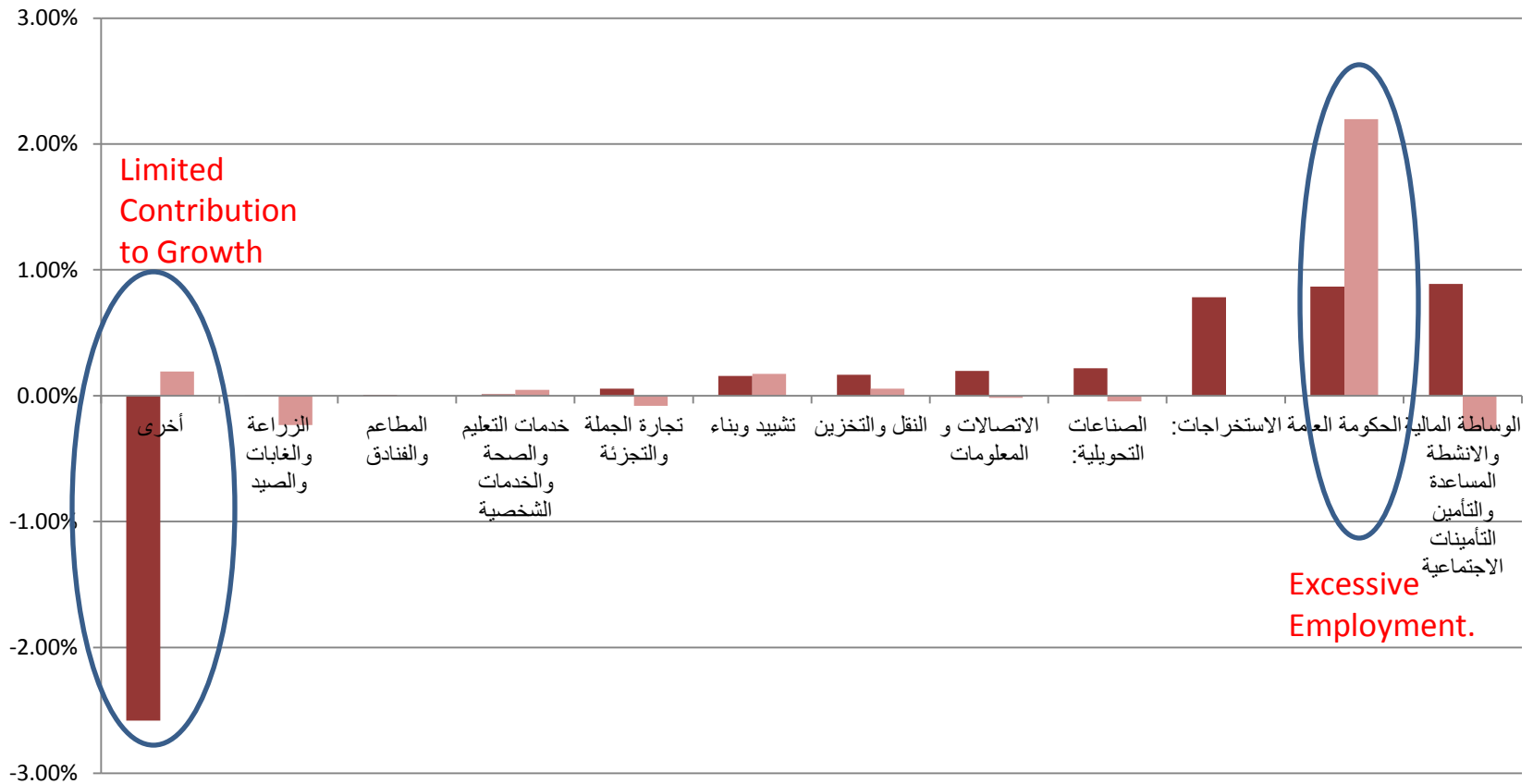
Source: Author's Calculation based on Ministry of Planning Annual Series for Real Output and Employment .

The Job content of growth is the **lowest** at the far right, and **highest** at the far left – where excess of labor warrants the redistribution of resources to other sectors where productivity is higher.



Source: Author's Calculation based on Ministry of Planning Annual Series for Output and Employment.

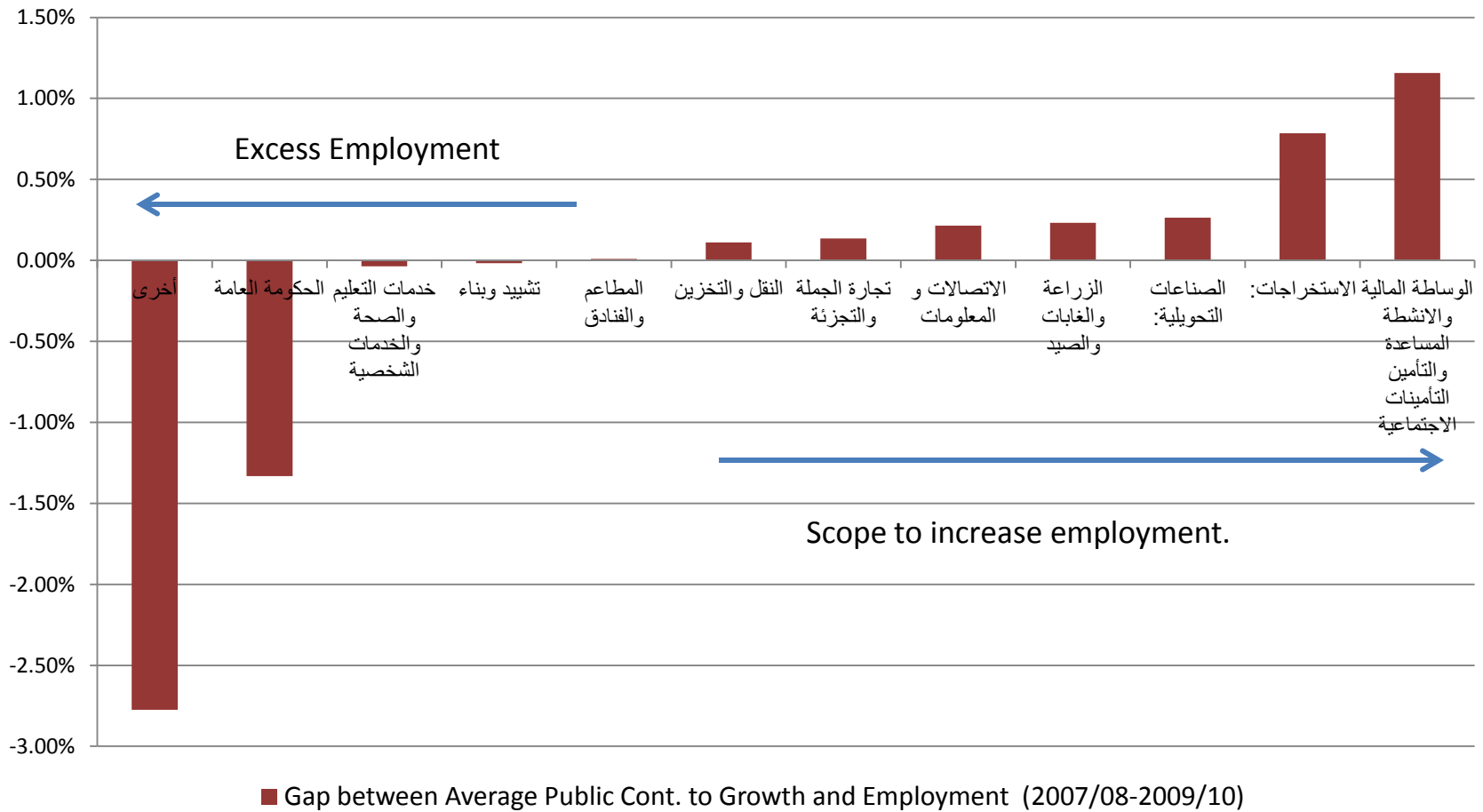
In the Public sector: There are serious imbalances between excessive employment strategy, compared to limited contribution to growth...



■ Average Public Contribution to Growth (2007/08-2009/10) ■ Average Public Contribution to Employment (2007/08-2009/10)

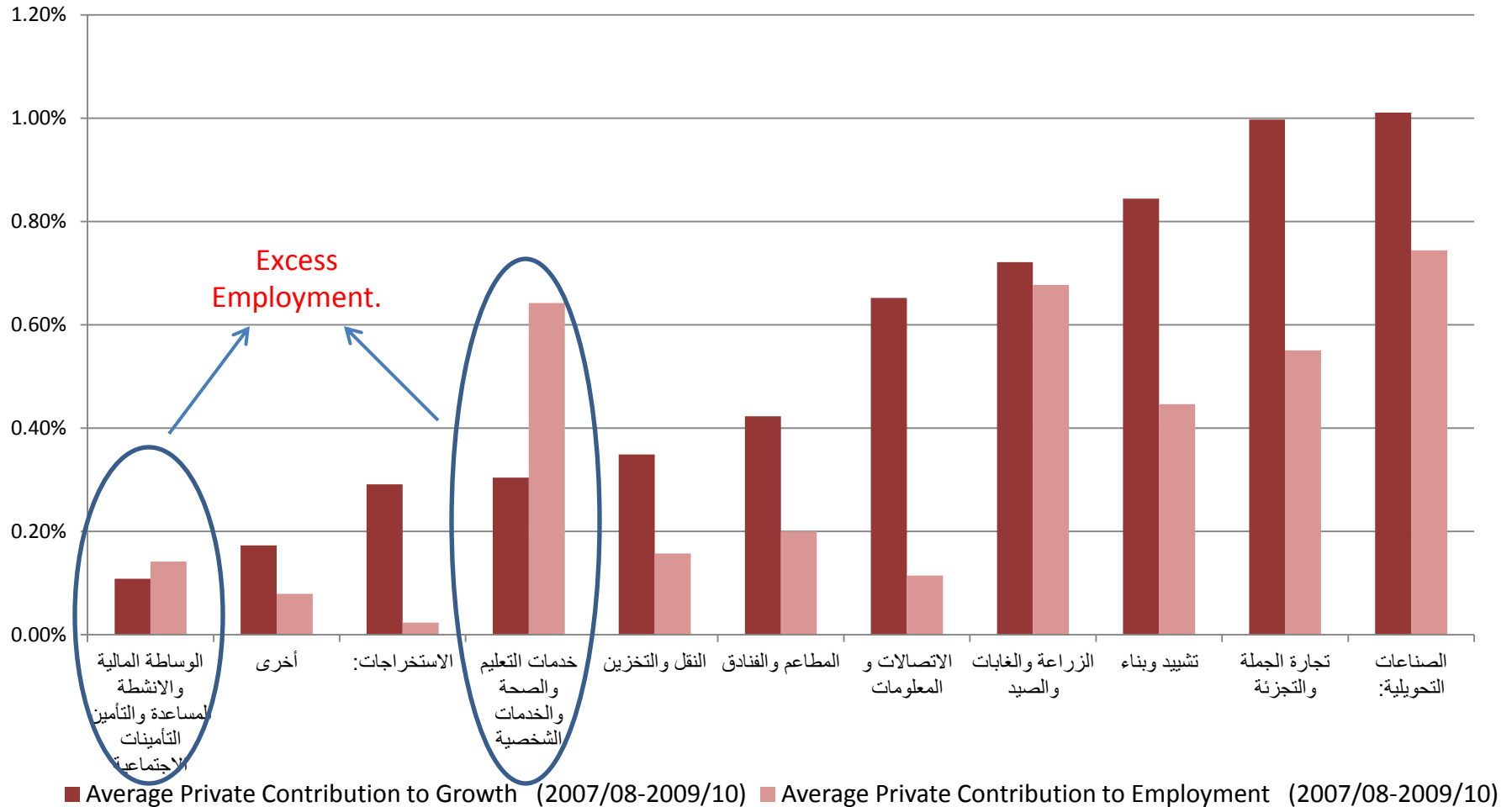
*"Others" include Suez canal, water and electricity sector; and rental activities.

...In contrast, there is room to grow employment in public sectors where contribution to growth is high.



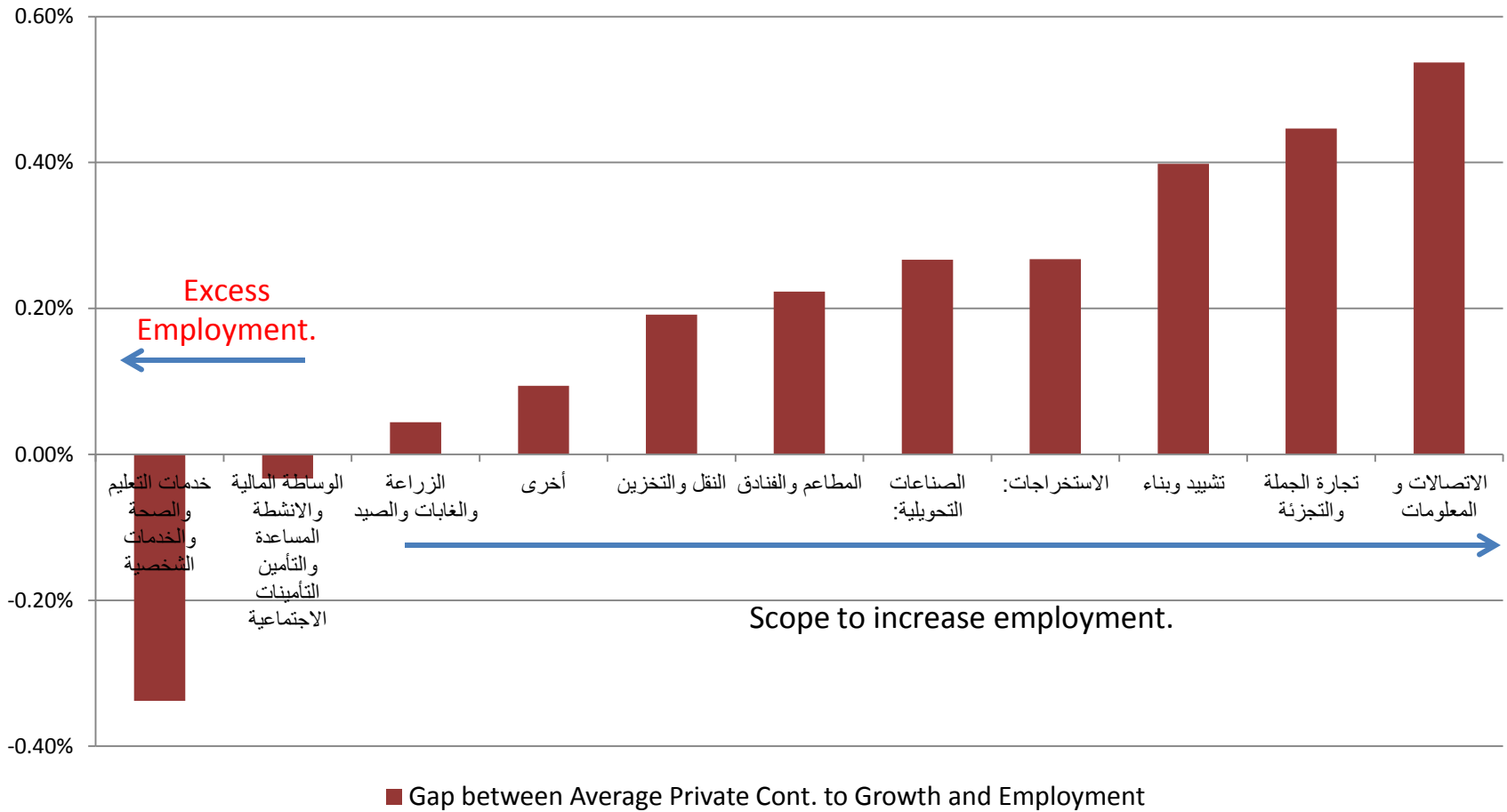
*"Others" include Suez canal, water and electricity sector; and rental activities.

In the Private sector: There is room to grow employment in many sectors except for Education and Financial Services.



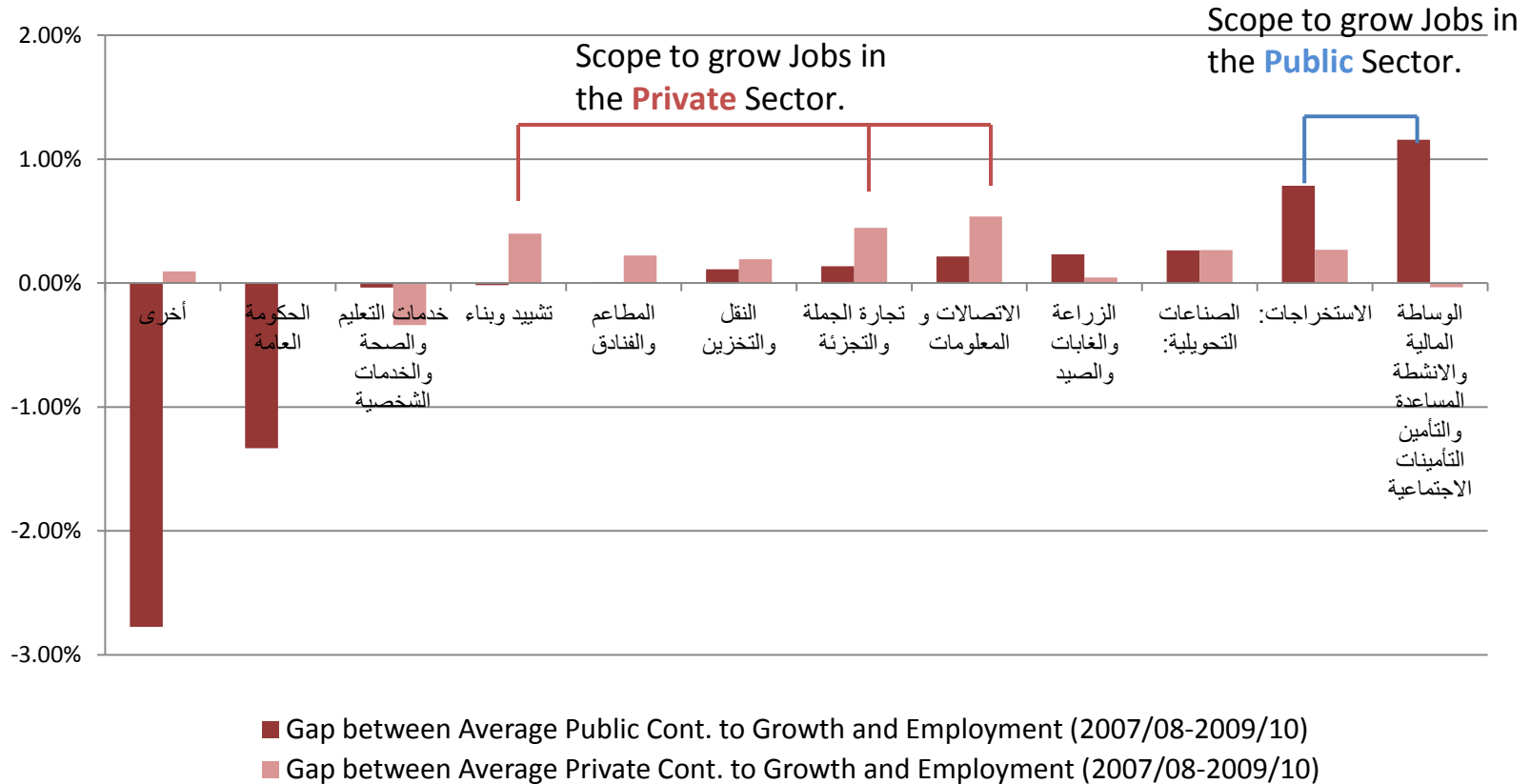
Source: Author's Calculation based on Ministry of Planning Annual Series for Real Output and Employment .

Rebalancing across the private sector is necessary to grow wages with productivity.



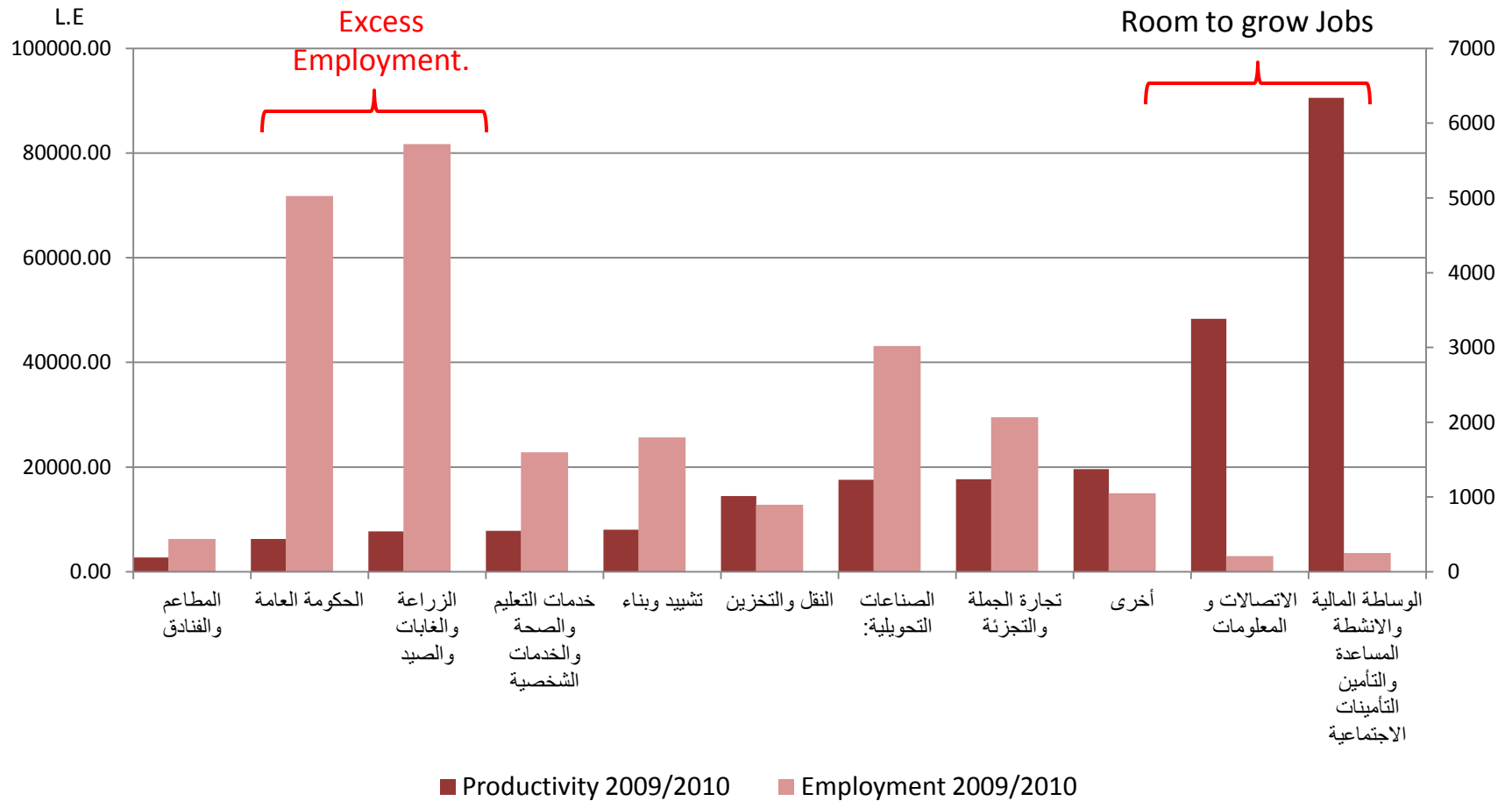
Source: Author's Calculation based on Ministry of Planning Annual Series for Real Output and Employment .

Private resources provide a better scope to grow jobs in Construction, Trade and Communication while the **Public** sector could create more jobs in the Financial and Mining sectors.

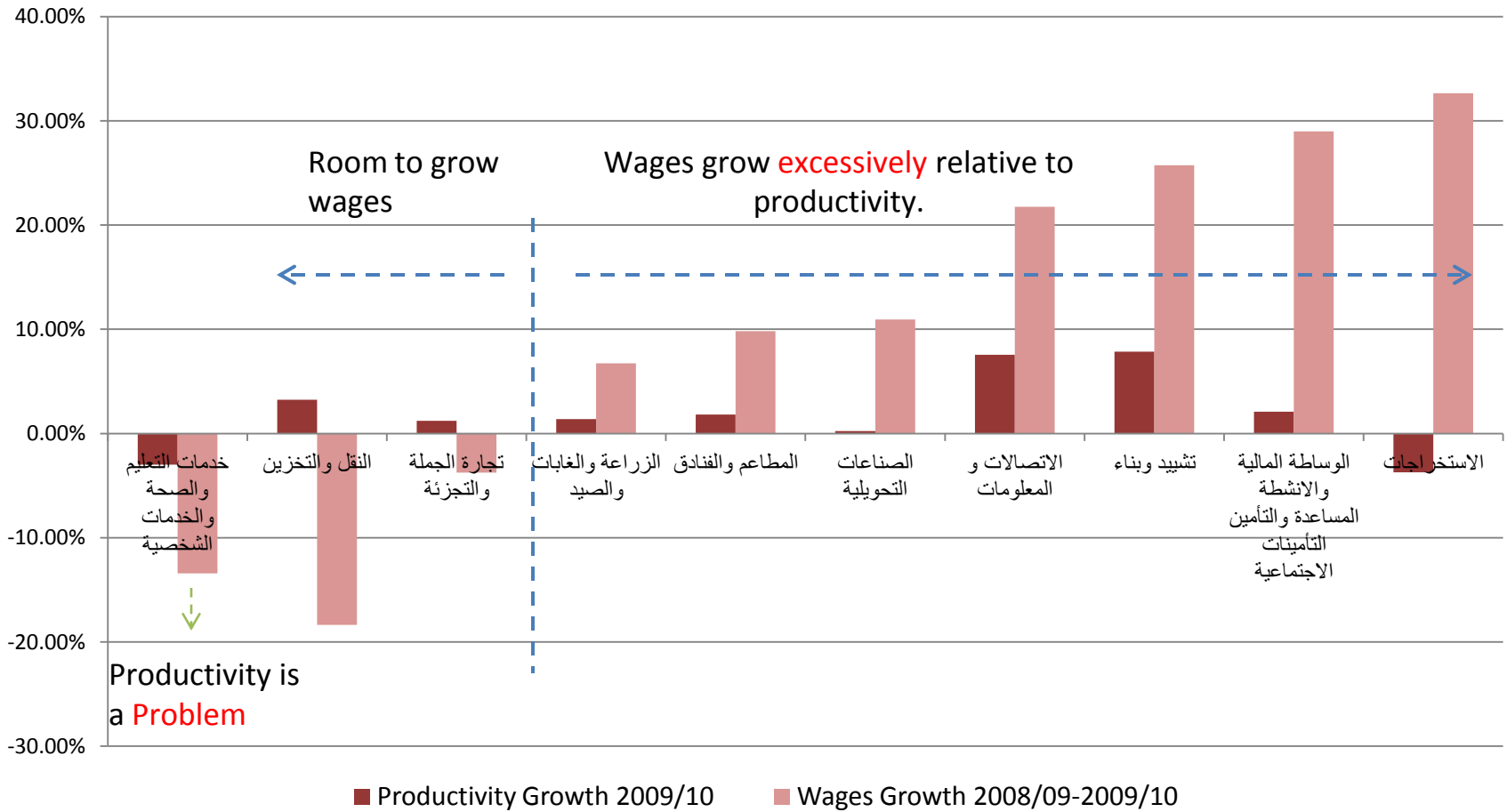


"Others" include Suez canal, water and electricity sector; and rental activities.

Sectors with the highest employment exhibit the lowest productivity and the opposite is true, flagging imbalances in employment strategy based on productivity.

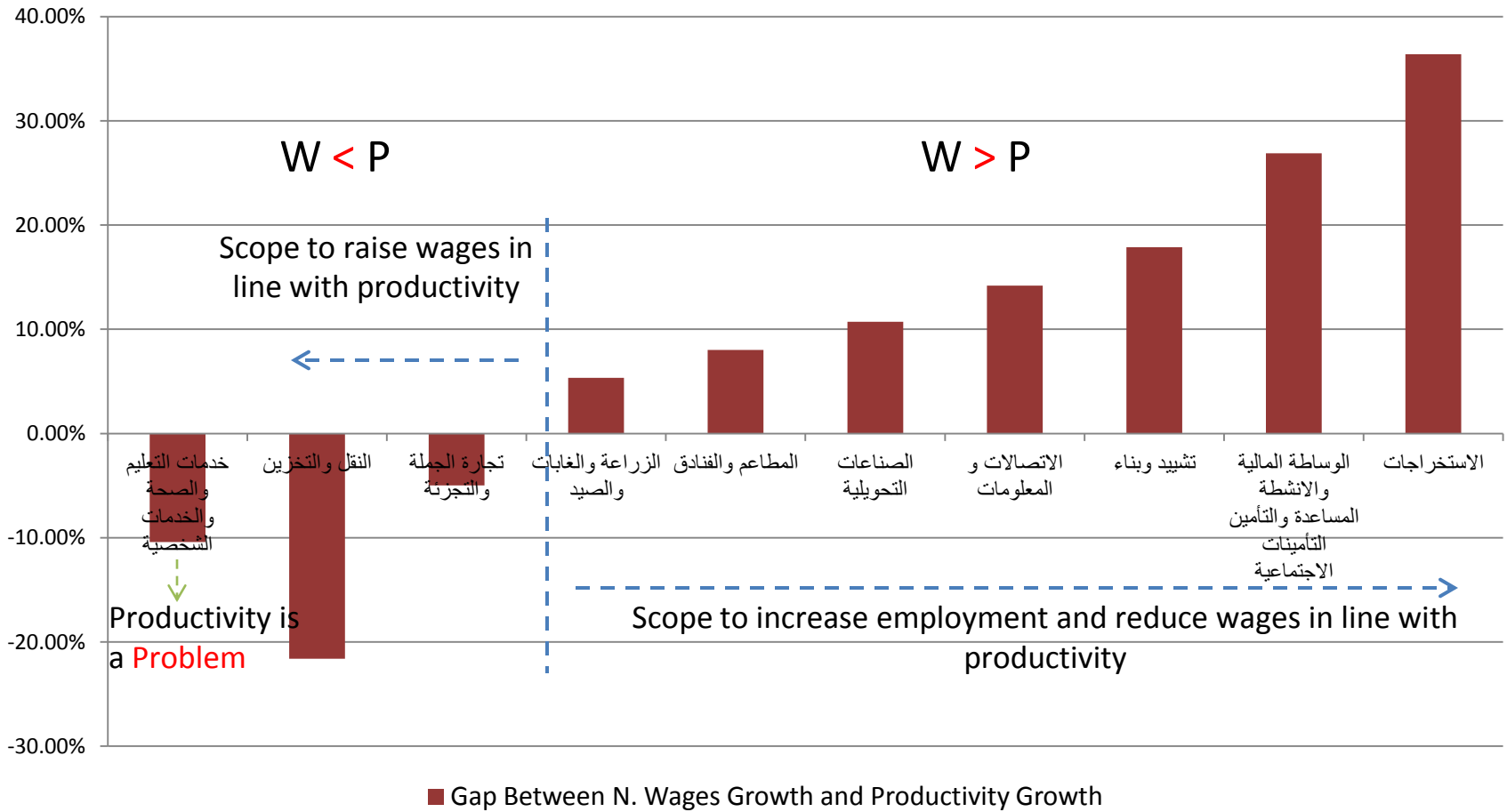


2. Average sectoral nominal wages & productivity growth (2008/09-2009/10) reveal unbalanced compensation of workers, based on contributions to value added.

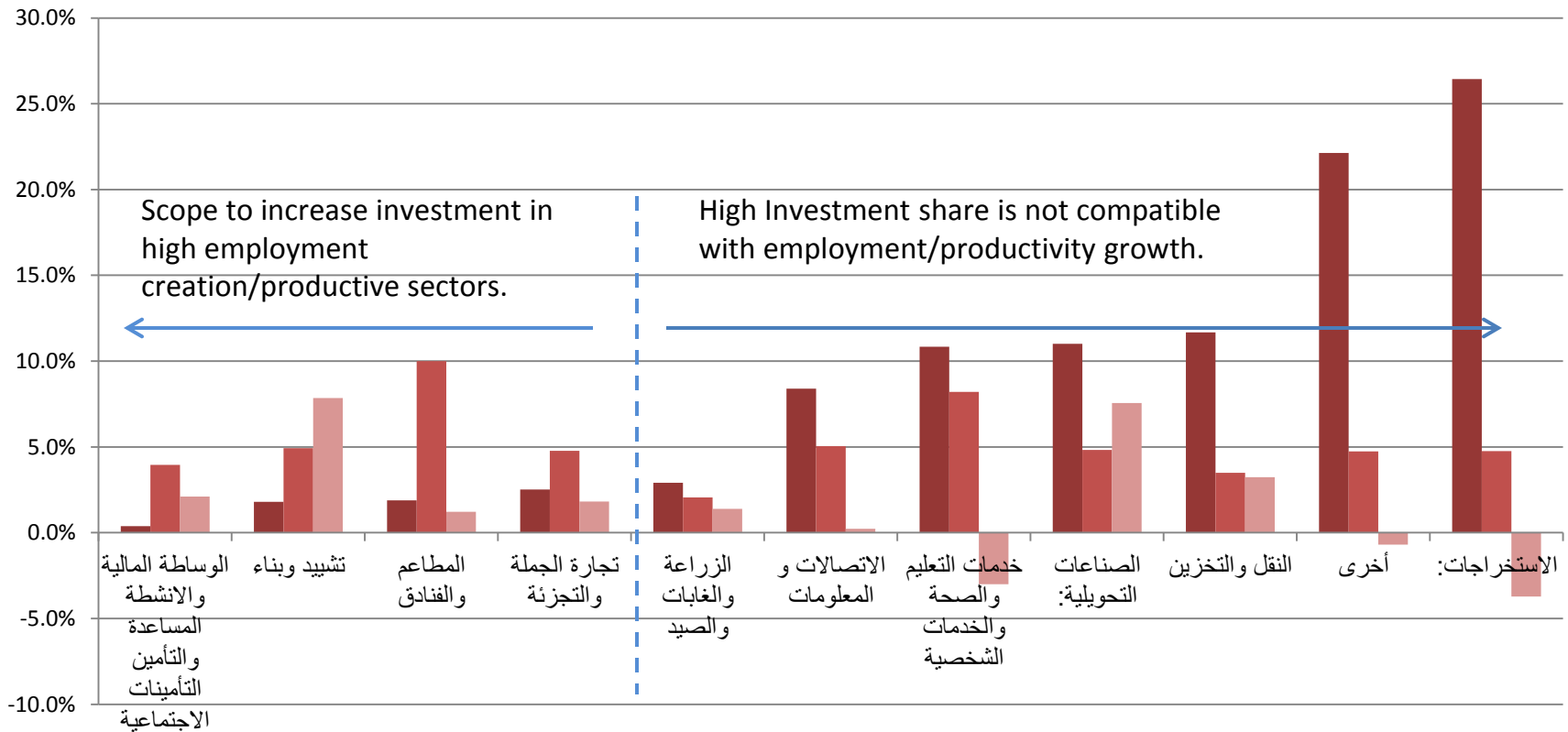


Source: Author's Calculation based on Ministry of Planning Annual Series for Real Output and Employment –and CAPMAS Annual Employment and Wages Bulletin .

To the left, productivity growth exceeds nominal wage growth, hence there is a scope to increase workers' compensation. In contrast to the right, compensation excessively increases relative to productivity.



3. Sectoral shares of real Investment, employment and productivity growth reveal unbalanced distribution, indentifying scope to create jobs based on the investment strategy.



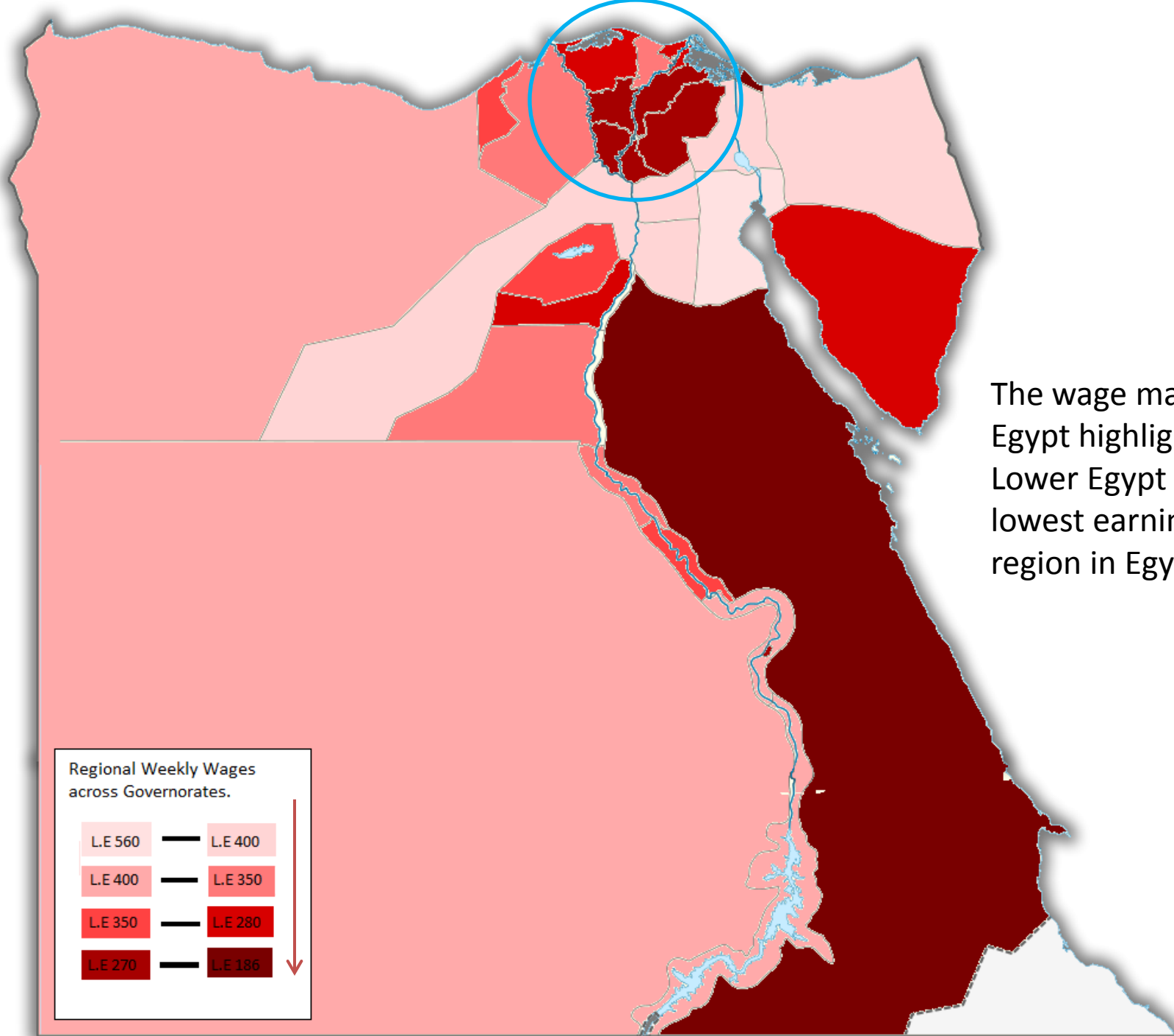
■ Sectoral Investment Share in 2009/10 ■ Sectoral Employment Growth in 09/10 ■ Productivity Growth 2009/10

Summary & Recommendations:

1. The unbalanced distribution between sectoral employment growth and other sectoral indicators warrants a *targeted government intervention towards increasing the job content of growth.*
2. As sectors grow at inconsistent rates with the job content, there are *striking imbalances between workers' compensation and productivity* across sectors.
3. There is room to grow wages in the private sector where contribution to growth significantly exceeds its cont. to employment. However, excess employment in the government and a few private sectors warrants a *redistribution of resources towards increasing productivity and supporting higher wages.*
4. Sectors with high job content receive the lowest investment shares where recipients of the highest shares of investment do not produce compatible employment figures and productivity is low, demanding *a redistribution of investment in line with employment priorities.*

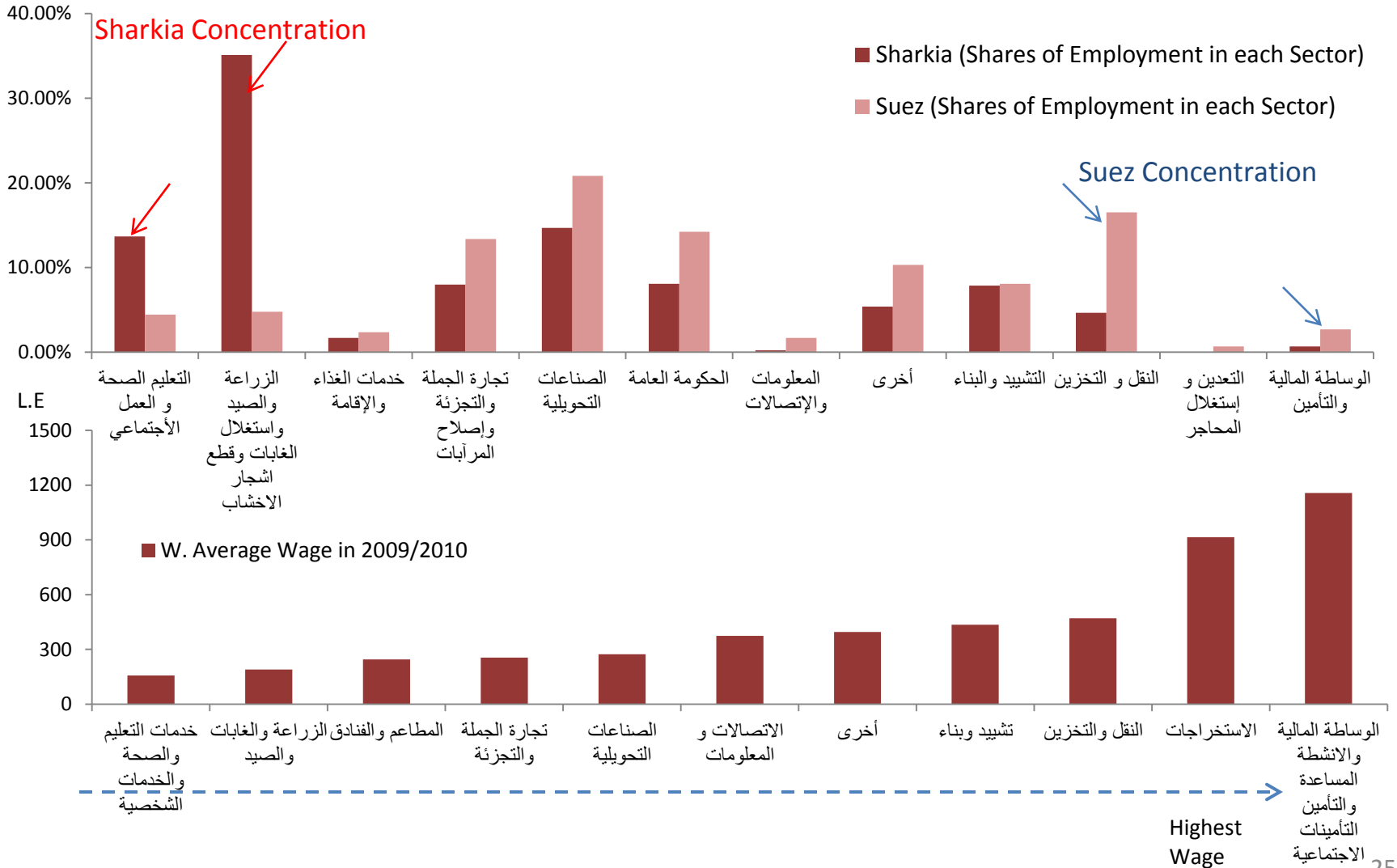
III. Regional Analysis

- Wage Map Across Various Regions of Egypt
 - Disaggregated Governorate Analysis

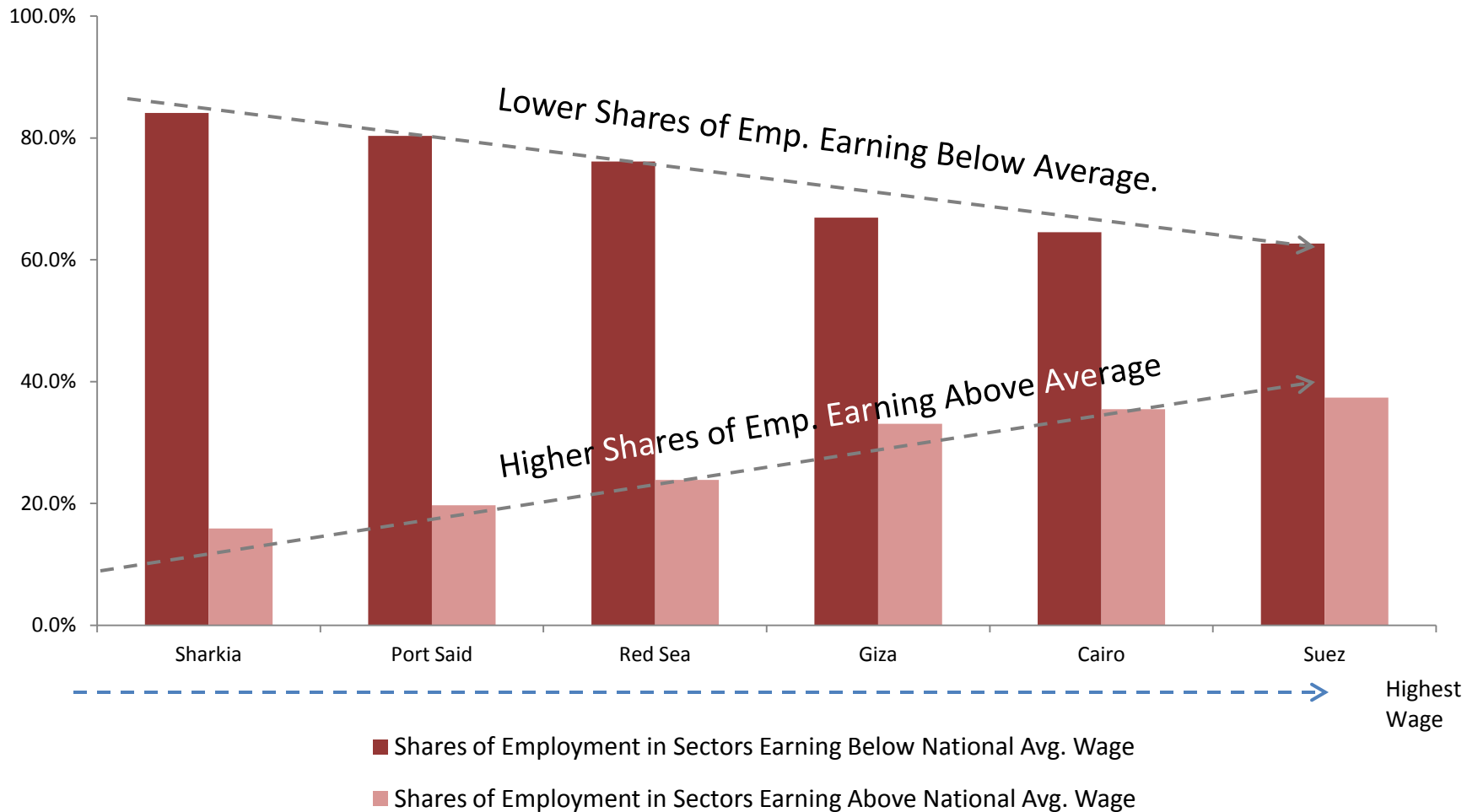


The wage map for Egypt highlights Lower Egypt as the lowest earning region in Egypt

At the two ends of the spectrum, there is higher concentration of high paying jobs in Suez, in contrast to higher concentration of low paying jobs in Sharkia.

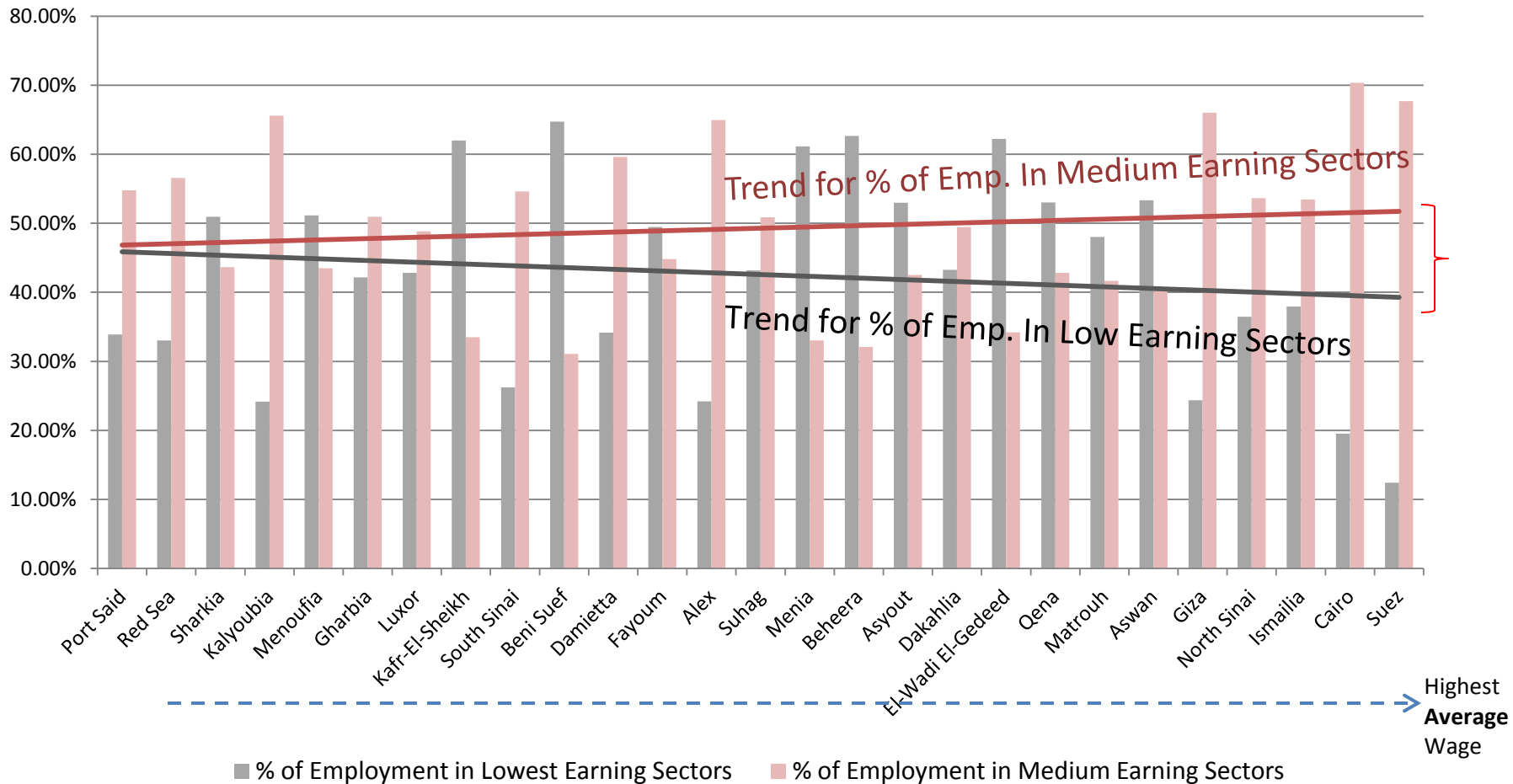


Using bilateral data for the distribution of employment shares based on wages in each governorate reveals that the least earning governorates are dominated by sectors that fair below the national average. Where investment policy needs to geographically reshuffle economic activities.

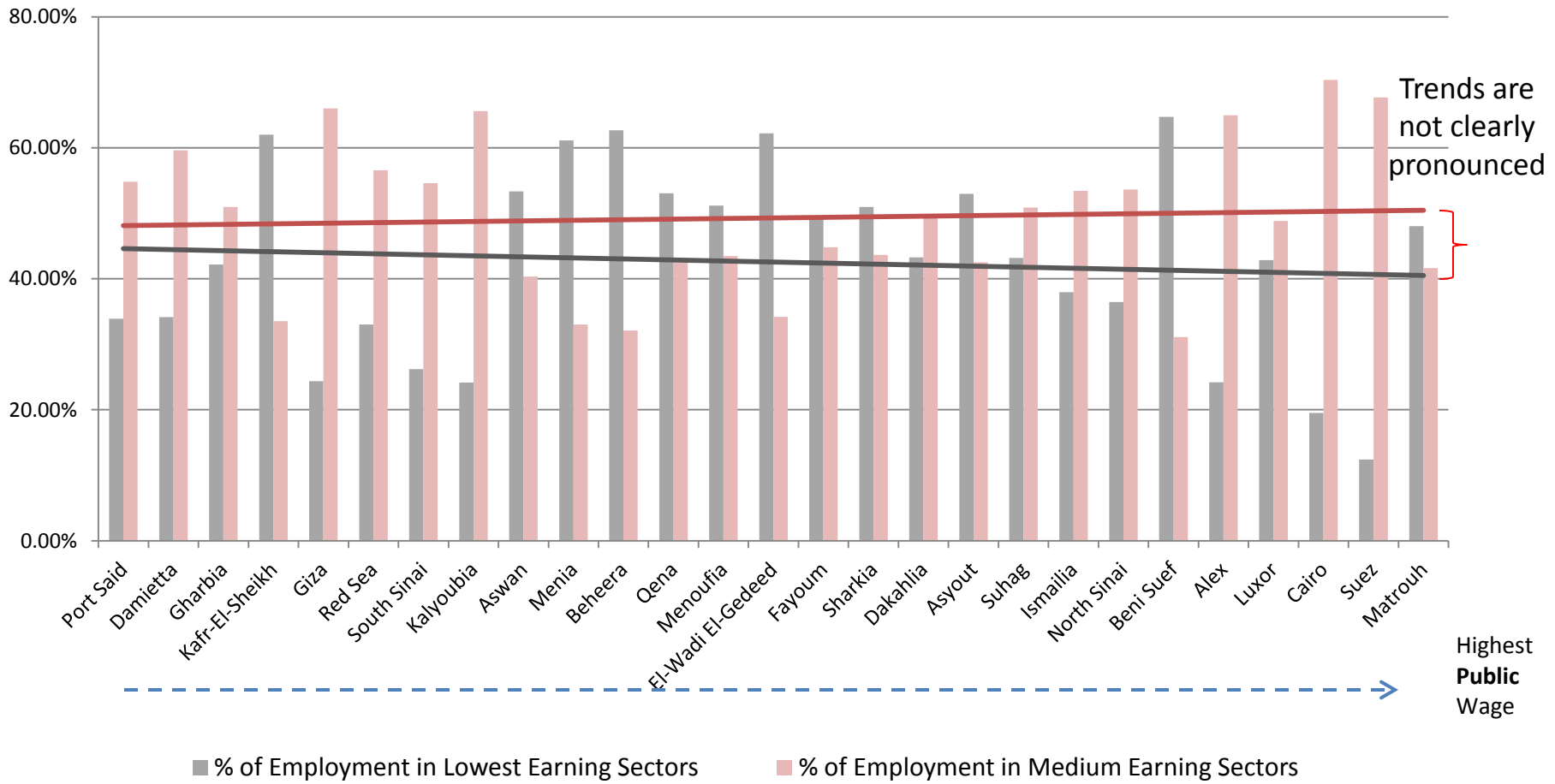


Source: Author's Calculation based CAPMAS Statistical Year Book Estimates for Employed Persons by Governorate 2010.

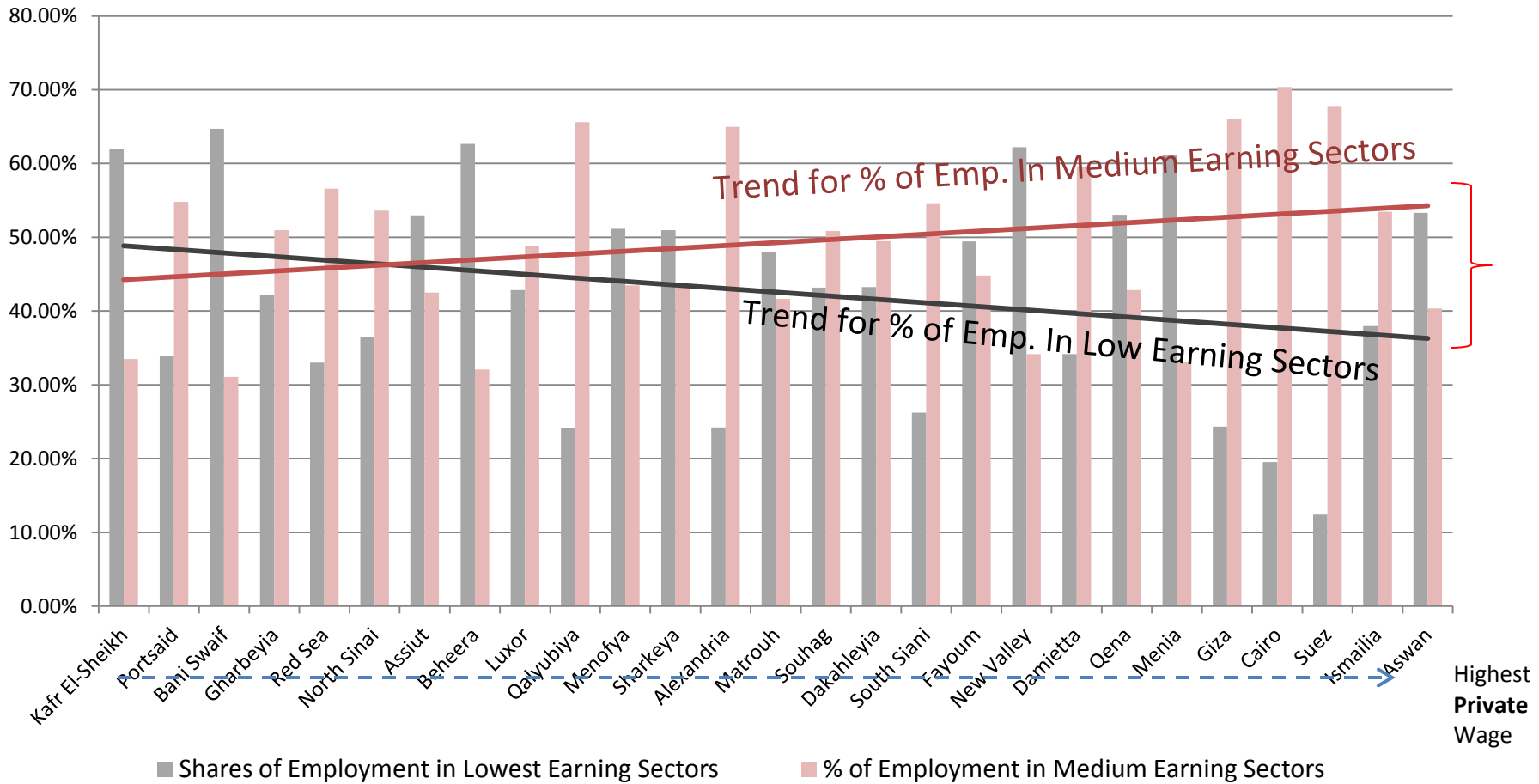
....A general trend of higher wages flags growing percentage of *'medium earning sectors'* coupled with declining percentage of low earning wages.



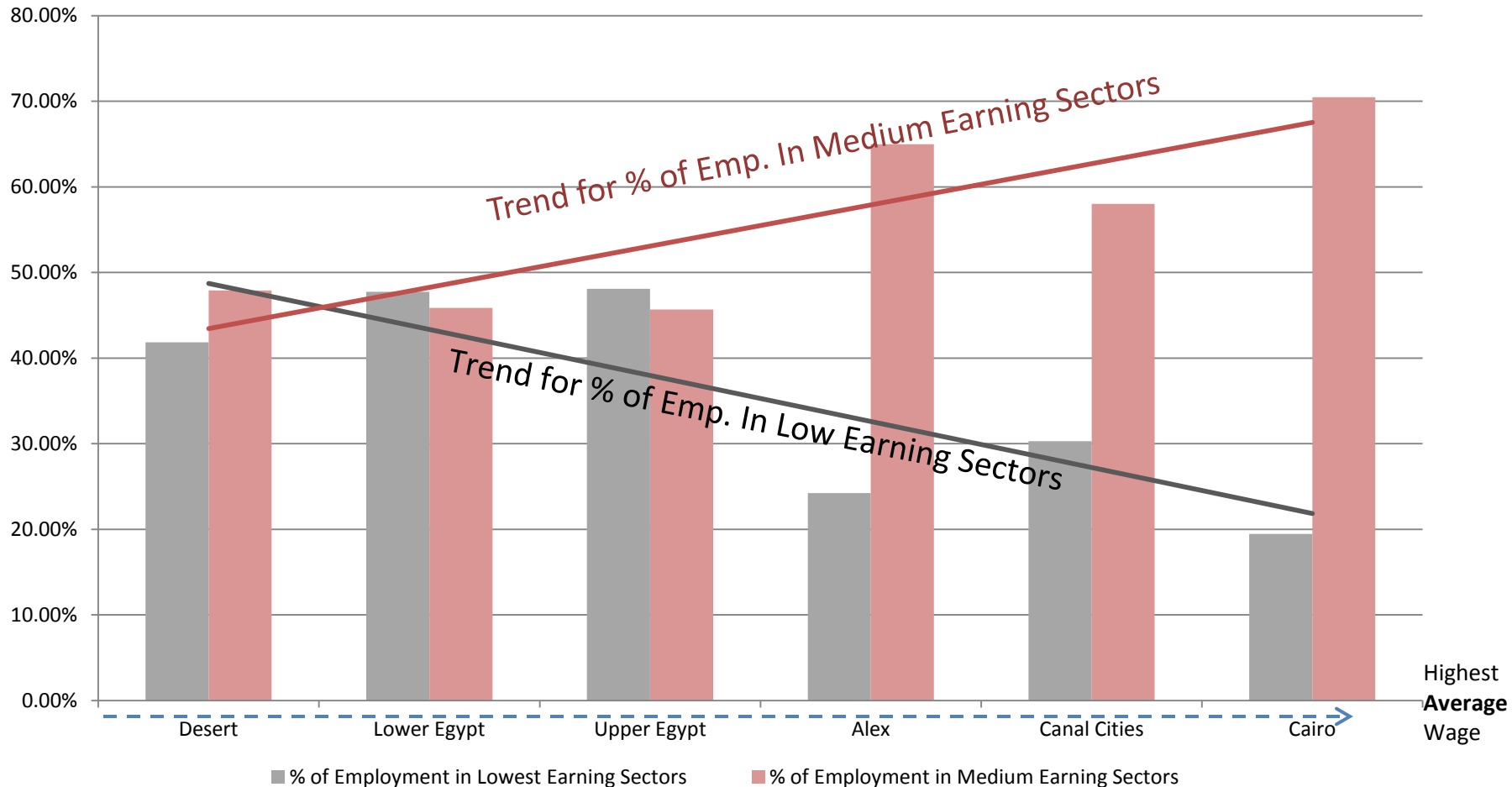
Variation in wages across governorates does not appear to be driven by public employment.



...In contrast, disparity between high and low paying jobs in the private sector establishes a clear trend for variation in wages across governorates.



To sum up: Across regions, the disparity in average wages is tied to shares of employment in low and medium earning sectors, which is highly driven by private employment.



*Cairo, Alexandria and Canal Cities are classified as the Urban region.

International Minimum Wage Framework

- Minimum Wage Policy Guidelines.
- Different Approaches to the Minimum Wage.
 - 3 Policy Implications for Egypt.

Minimum Wage Policy Guidelines

- Arbitrary MW level could have disastrous effects on the economy: inflation and massive layoffs.
- Authorities should strike a balance between economic & social concerns

Purpose:

- Overcome poverty/Satisfy basic needs.
- Necessary social protection for wage earners.

Criteria:

- Basic needs & country wage level
- Cost of living & inflation
- Business employers' capacity to pay
- Levels of productivity & levels of employment

National Min Wage

Objective:

Reducing poverty while safeguarding employment

Requirements:

- Homogeneity of economic sectors & labor market conditions of the country.
- Straightforward system for the dissemination of information on the MW level/monitoring system

Applied in:

Argentina, Spain, and the United States

Regional Min Wage

Objective:

Take into account disparities across regions which demand different MW relevant to the level of economic development

Requirements:

- Careful coordination.
- More decentralized systems.

Applied in:

Indonesia, Japan , and Mexico

Industry Min Wage

Objective:

Protect a small number of workers in low-paying industries who are vulnerable in the labor market

Requirements:

- Well developed representative employers' and workers' organizations
- legally binding industry level collective agreements

Applied in:

Austria, Germany, and Italy

National & Regional Minimum Wages

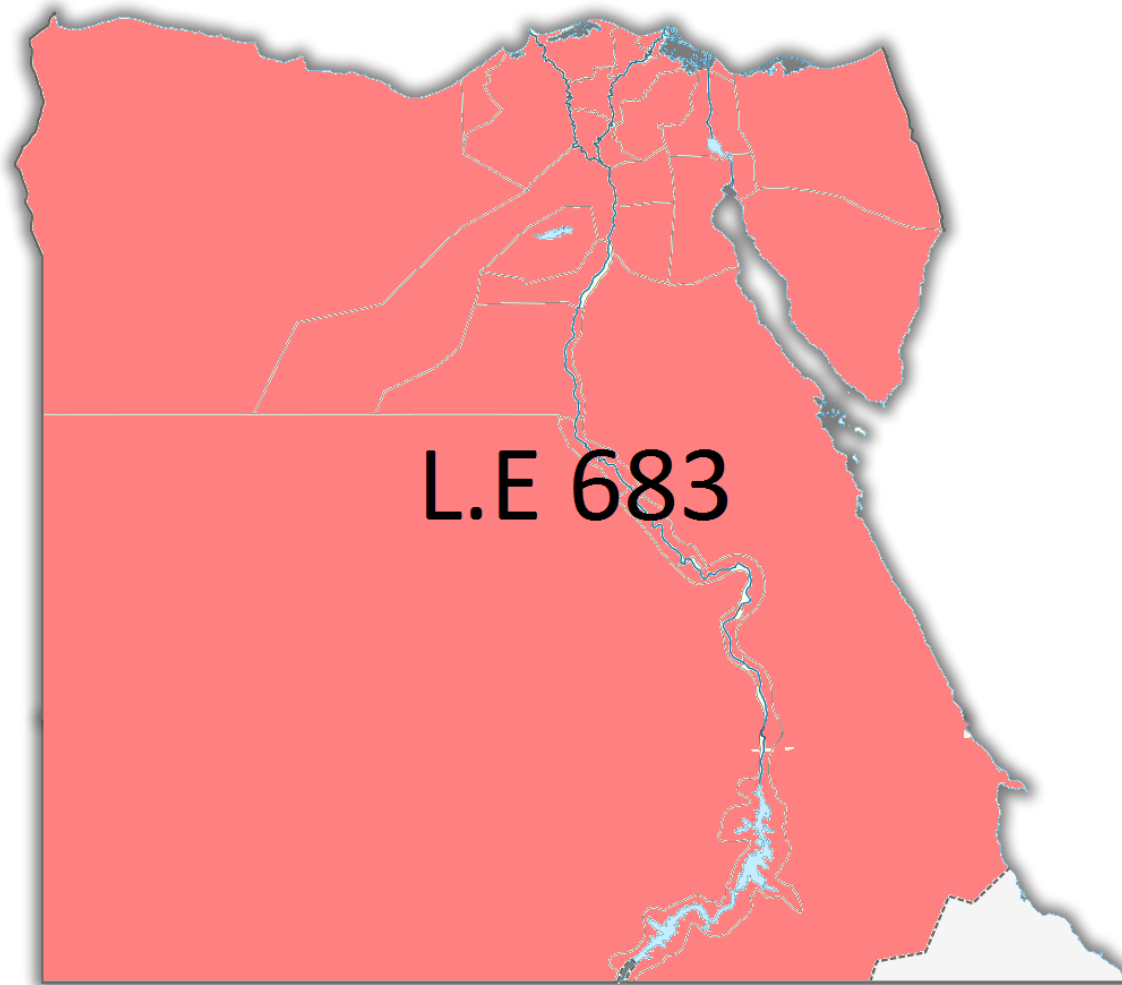
Case Study: India (MW Act in 1948)

- National floor level of min. wage adjusted from 80 Rs/Day in 2009 to 100 in 2010 & to 115 in April 2011. Could be paid partly in kind.
- Inflation targeting carried biannually (April & October) based on CPI.
- The Union Government set up five Regional Committees in order to reduce the regional disparities (i.e.,: cost of living in each region, their main industrial activity and the workers' skills.)

Governorate	Type of Activity	Intra-Regional Disparity	Min. Wage
Ex. 1: Punjab (In Kind/In Cash Mix)	Agriculture	With Meals (or food grain)	143 Rs/Day
		Without Meals	160 Rs/Day
Ex. 2: Delhi (Disparity based on Skill)	Agriculture	Unskilled	256 Rs/Day
		Skilled	312 Rs/Day

Implication for Egypt:

Unlike India which accounts for regional disparities next to its national minimum wage level, Egypt has a 'One Size Fits All' minimum wage that can yet be adjusted taking into account cost of living and productivity.



Regional Minimum Wage

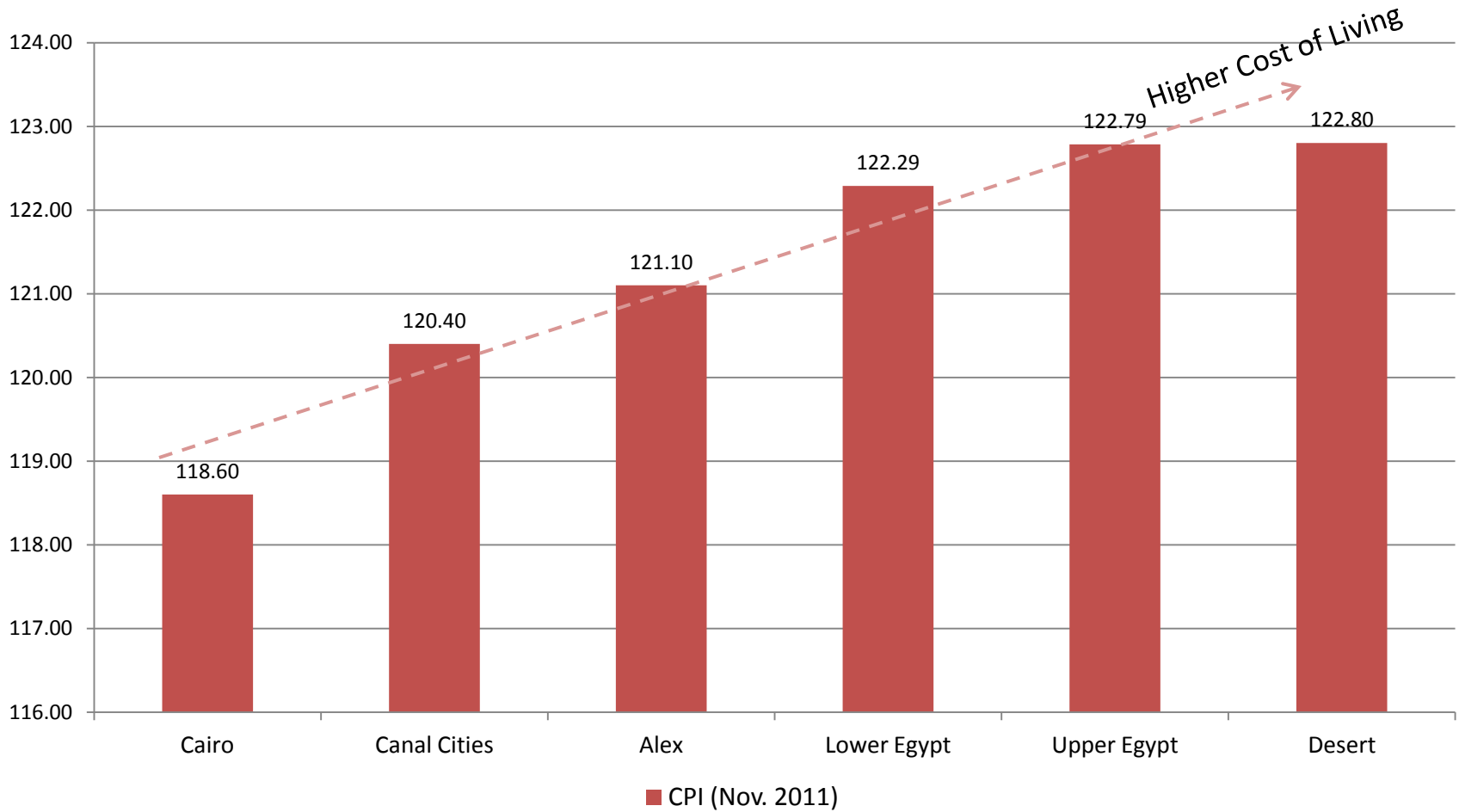
Case Study: Indonesia

- Central government sets criteria for the MW; Regional government is responsible for its implementation.
- MW revised annually, and differs regionally, according to cost of living.
- MW excludes the informal sector, covering around 70% of the workforce.

East Java	Jakarta
\$35.03	\$91.15

Implications for Egypt:

According to the regional cost of living: Moving farther from the center results in higher costs of living

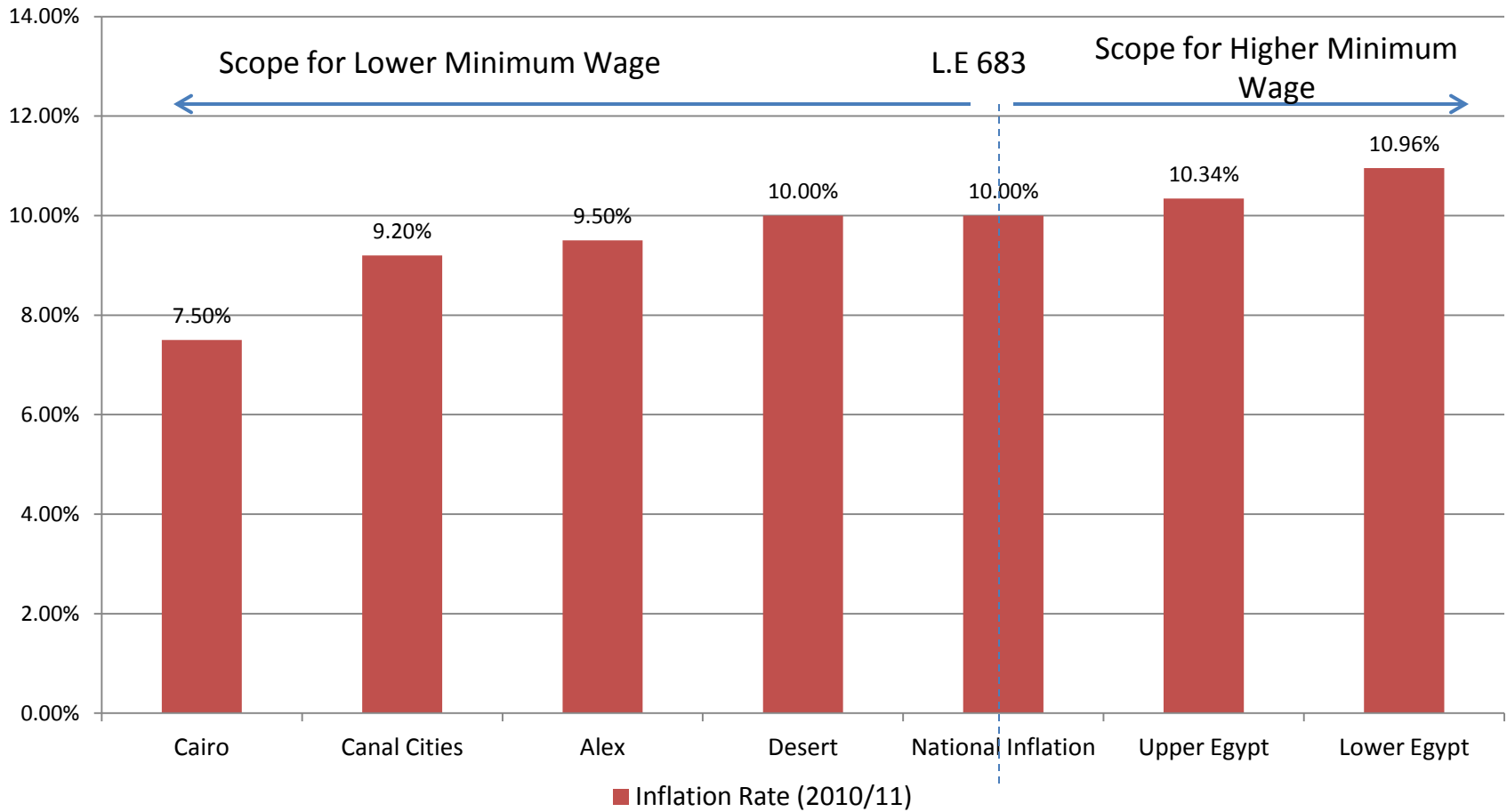


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**Setting regional minimum wages in the case of Egypt will require legal amendments towards decentralization.

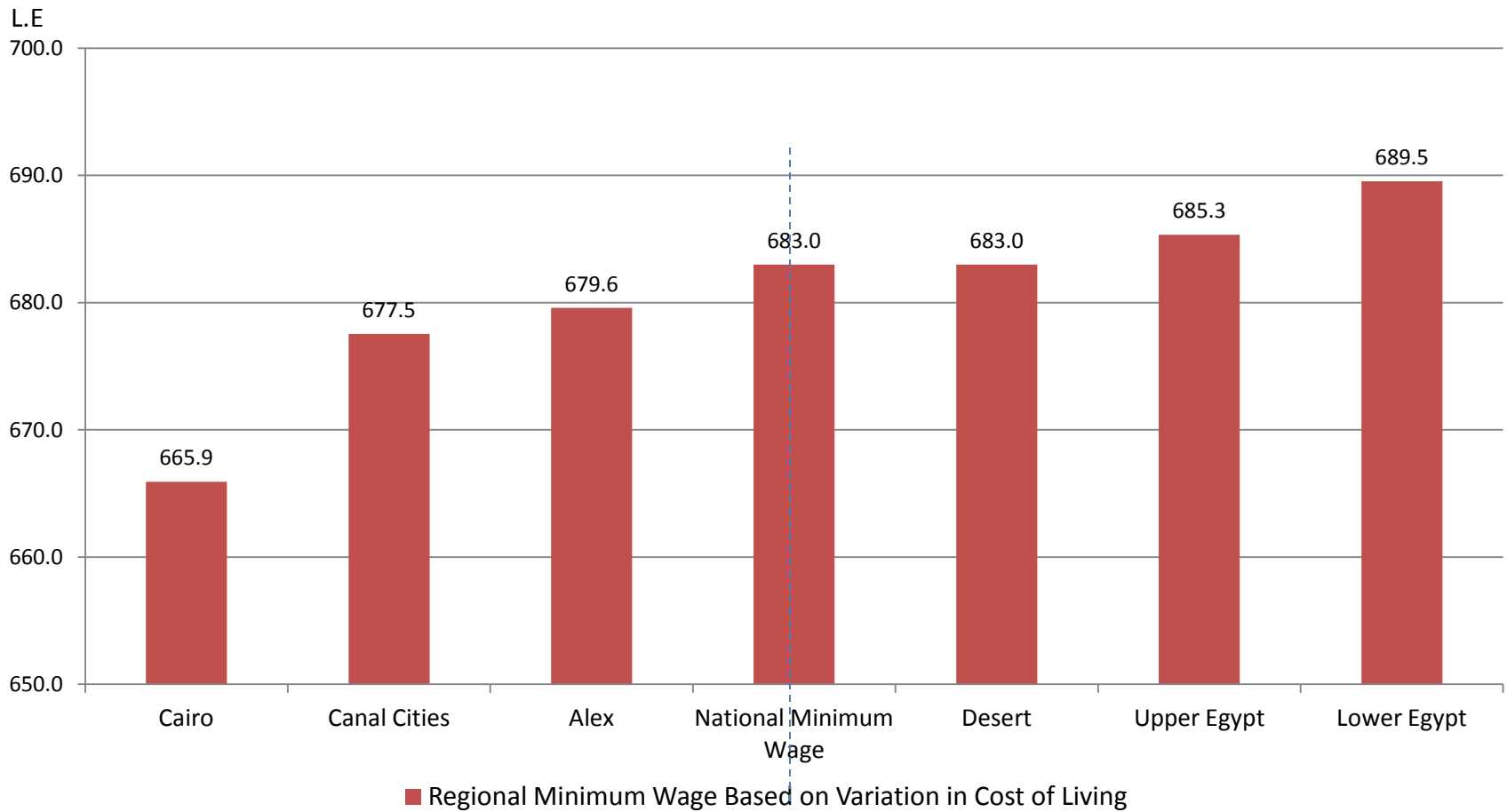
One Size Does NOT Fit All.

Lower Egypt, with the highest % of rural population has the highest inflation rate, suggesting a need for higher minimum wage in contrast to Urban areas.



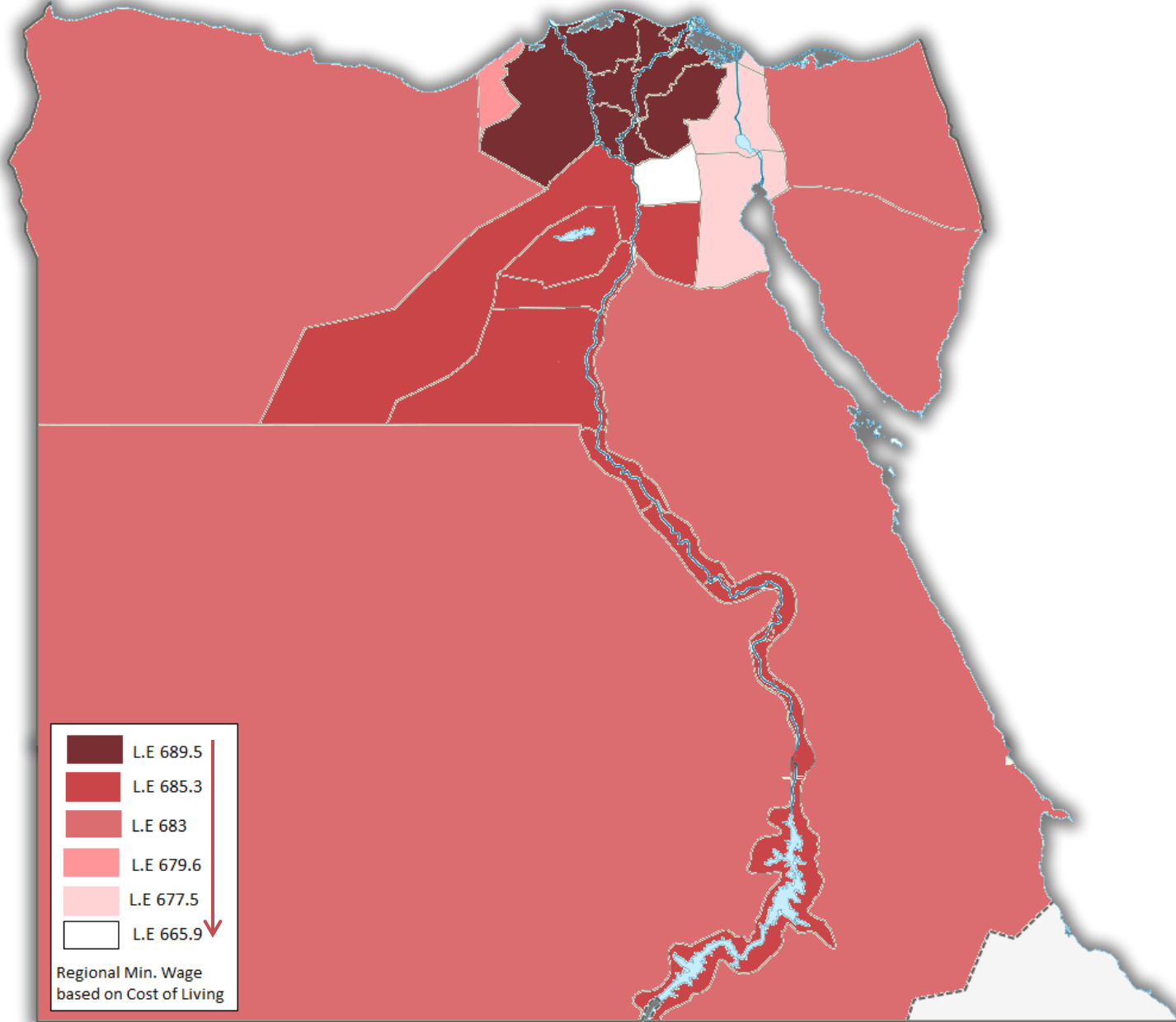
*Cairo, Alexandria and Canal Cities are classified as the Urban region.

Using step deviation from the national average inflation level, the scenario for regional minimum wage levels ranges from L.E 666 – 690.



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Map of the regional minimum wages, indicative of variation in the cost of living.



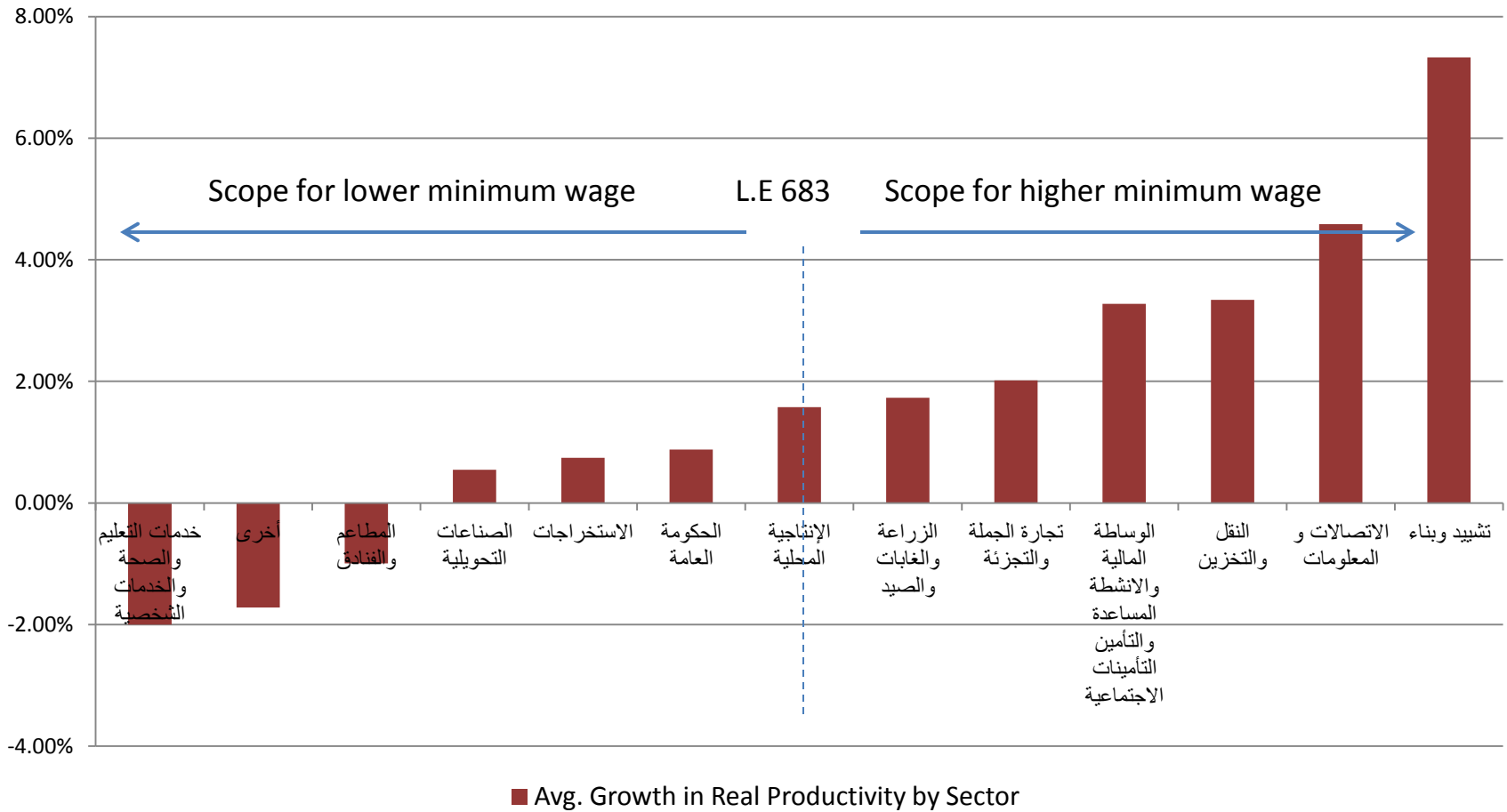
Industry Minimum Wage

Case Study: Germany

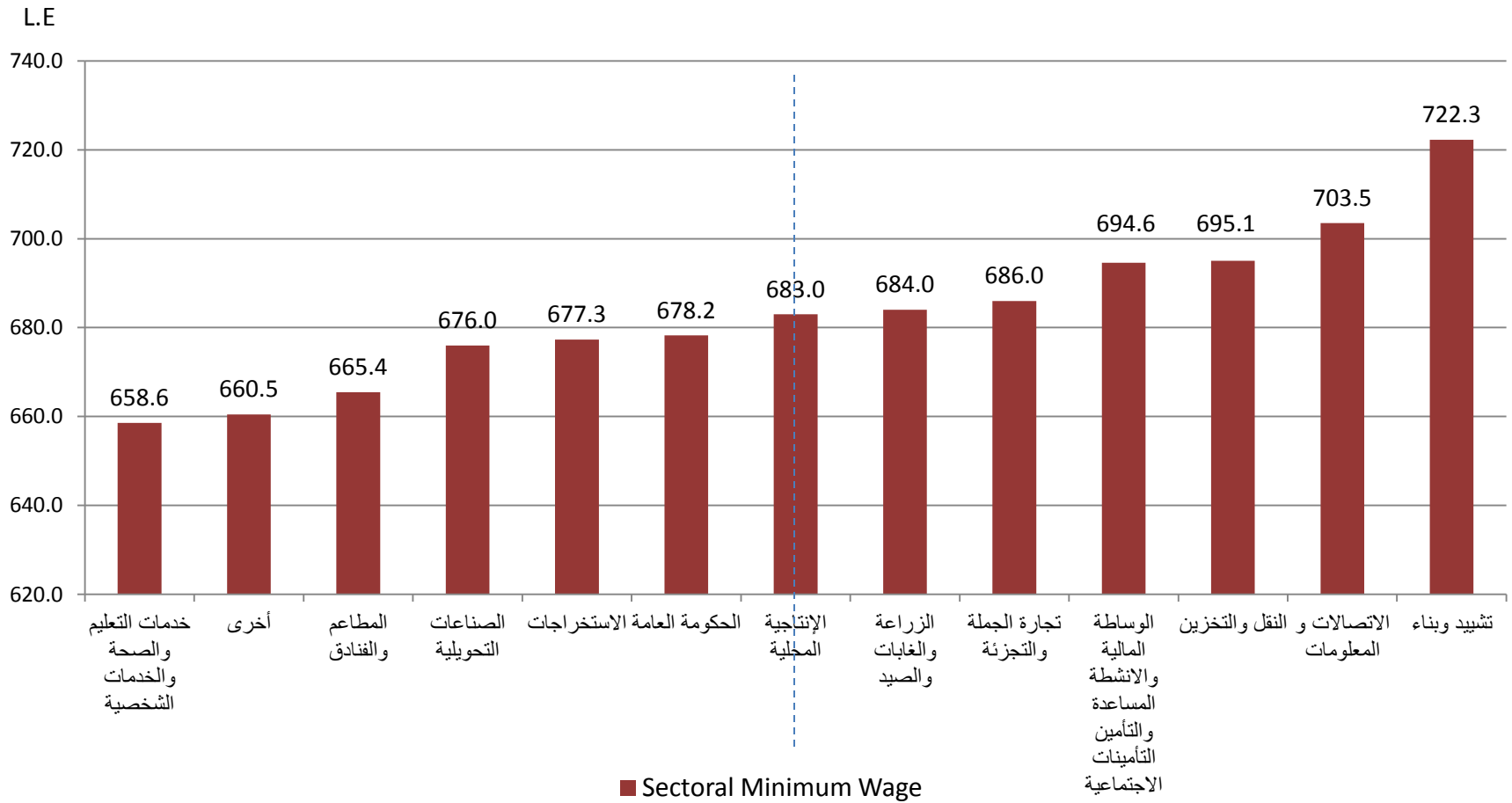
- MW is reached through collective bargaining: legally binding, between trade unions and employers.
- To encourage unionization: Only members of trade unions have a direct legal claim against their employers.
- Collective agreements can be extended by the Minister of Labor to include employers and employees in the relevant sector, who were not bound by the agreement.

Implications for Egypt:

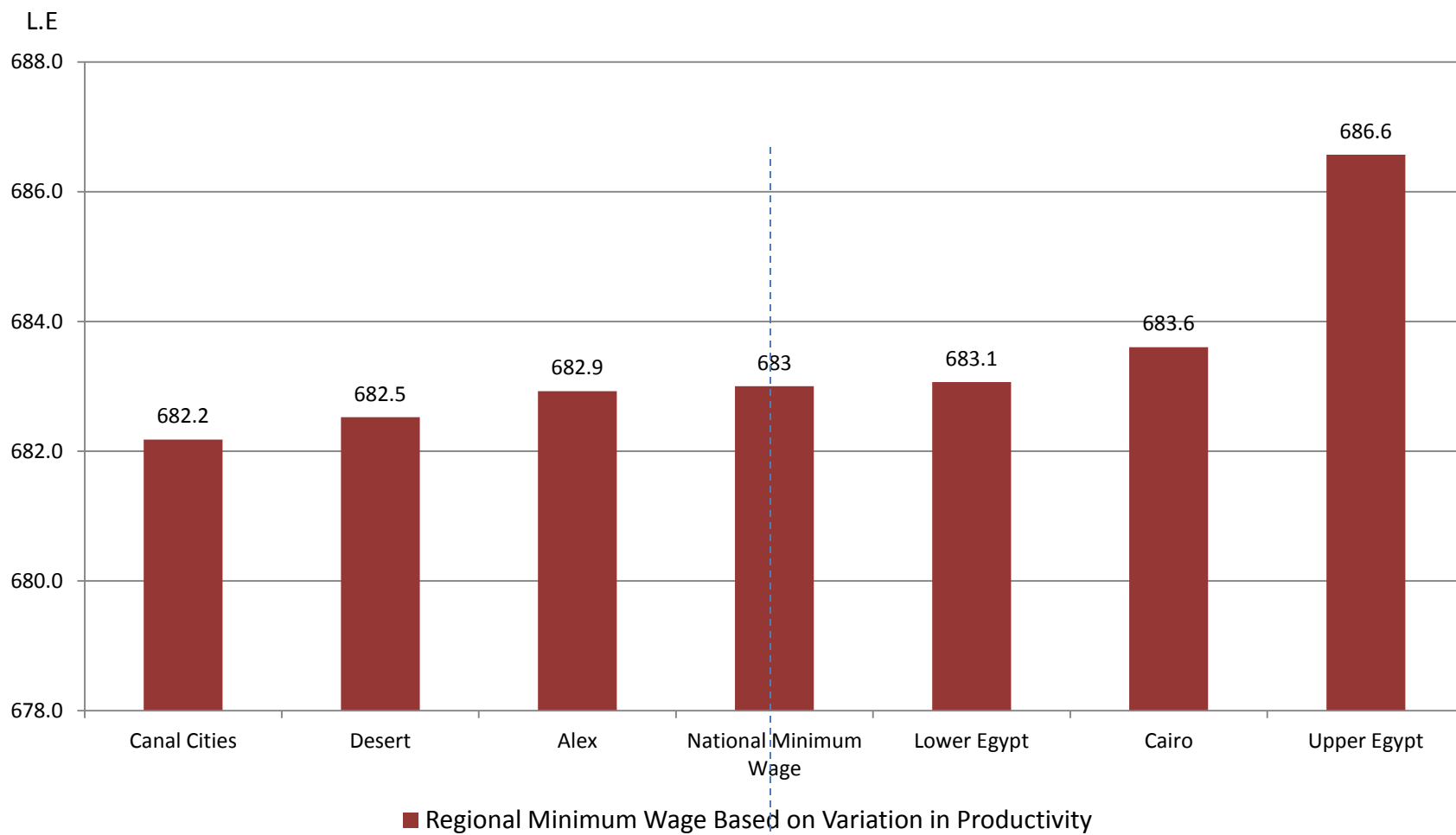
Variation in Sectoral Wages based on Productivity.



Using step deviation from the national average productivity level, the scenario for Industrial (Sectoral) minimum wage levels ranges from L.E 658 – 722.

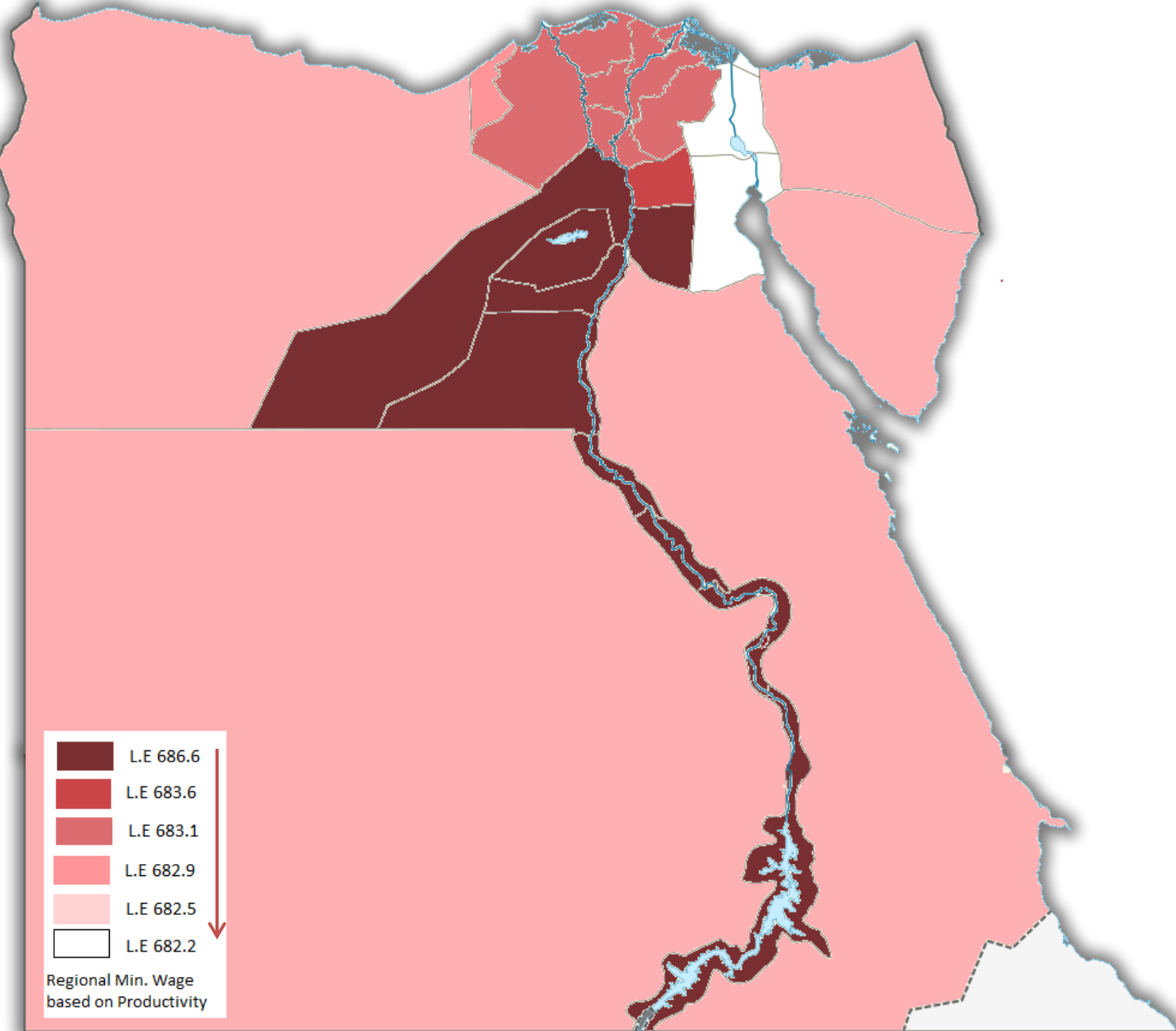


Using weighted average of shares of sectoral employment within regions and their respective wages; the scenario for the regional minimum wages based on productivity ranges from L.E 682 – 687.



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Map of the regional minimum wages, indicative of variation in productivity.

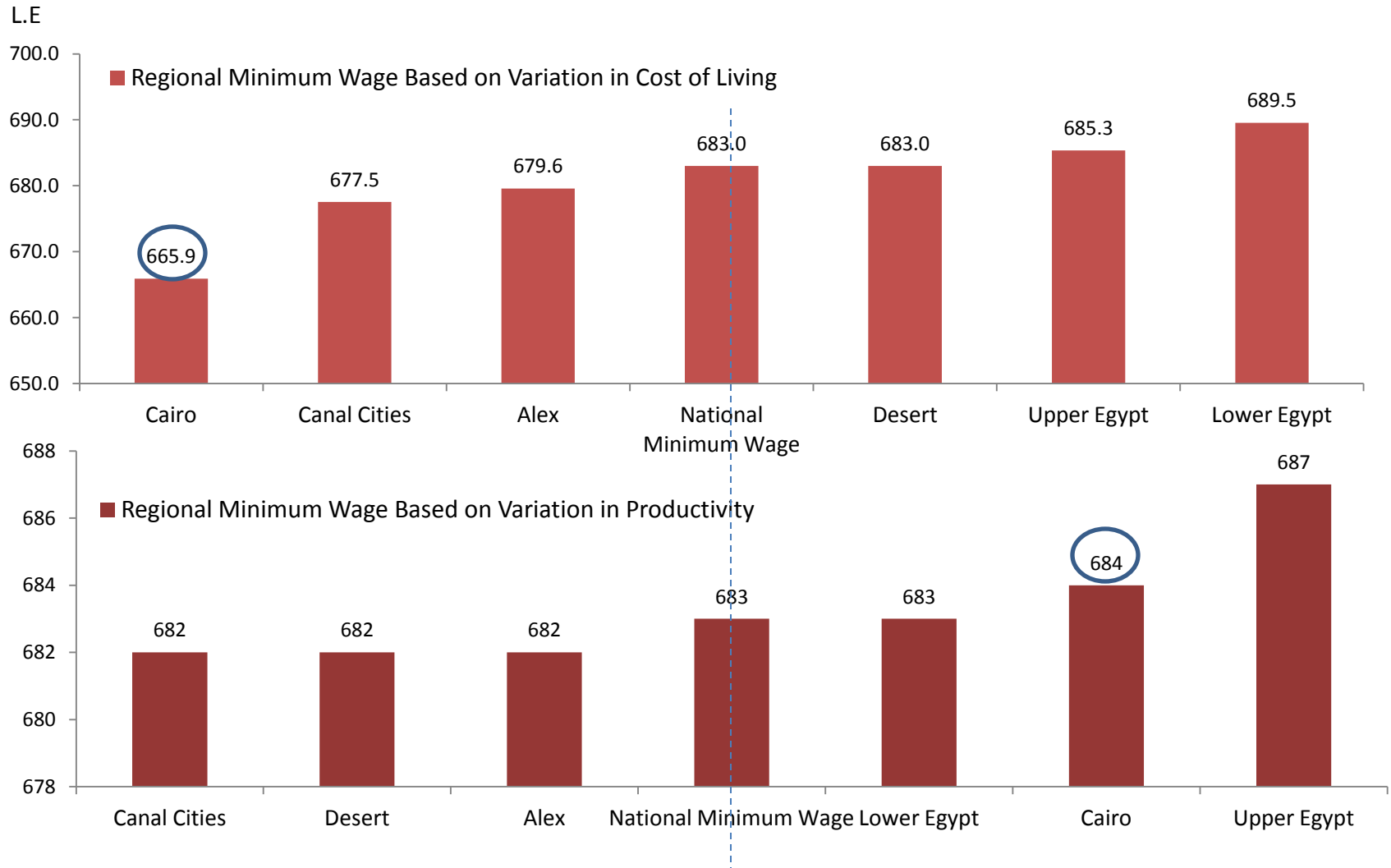


Mixed Policy Approach:

- Different MW systems are not necessarily exclusive.
- In order to account for intra-national disparities, multiple approaches can be intertwined together.
- In Uruguay, national MW coexists with occupational MW.
- In Japan, regional MW coexists with industrial MW.

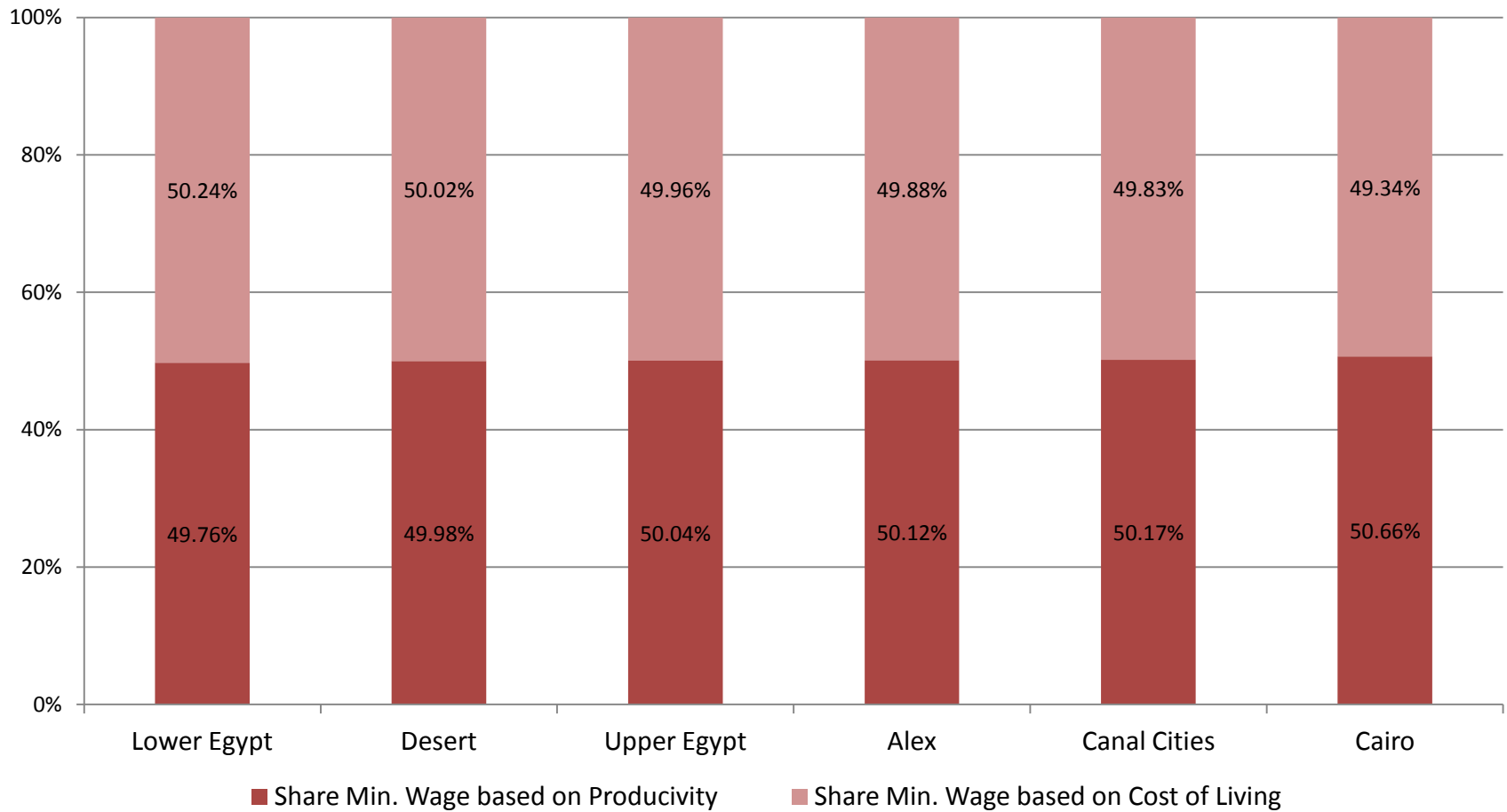
Implications for Egypt:

There is a sharp contrast between a minimum wage distribution across regions based on cost of living and productivity.



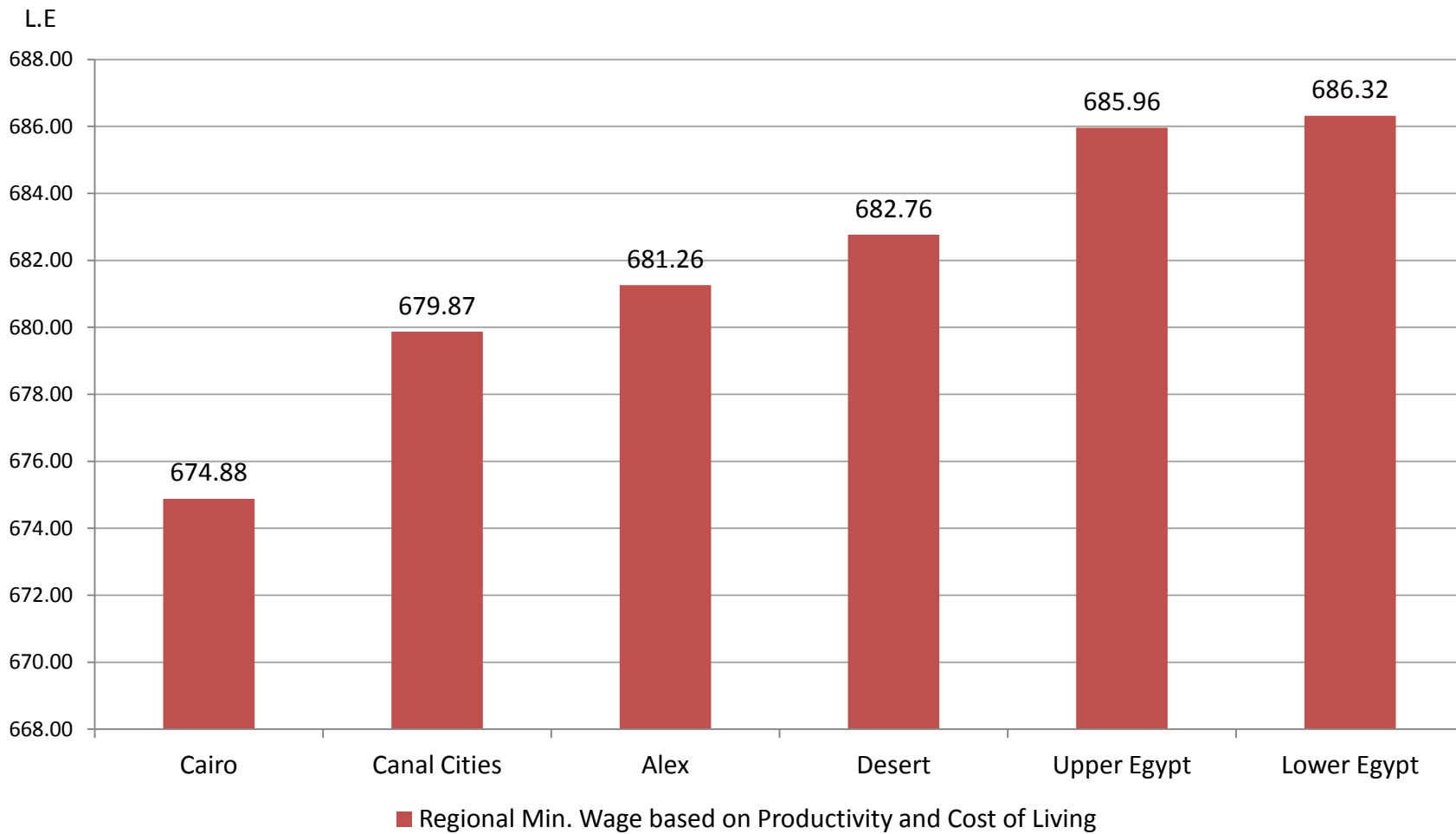
*Cairo, Alexandria and Canal Cities are classified as the Urban region.

Shares of productivity and inflation reveal that the inflation component drives the minimum wage in Lower Egypt and Frontier/Desert regions, while the productivity component is what drives it in Upper Egypt and Urban regions.



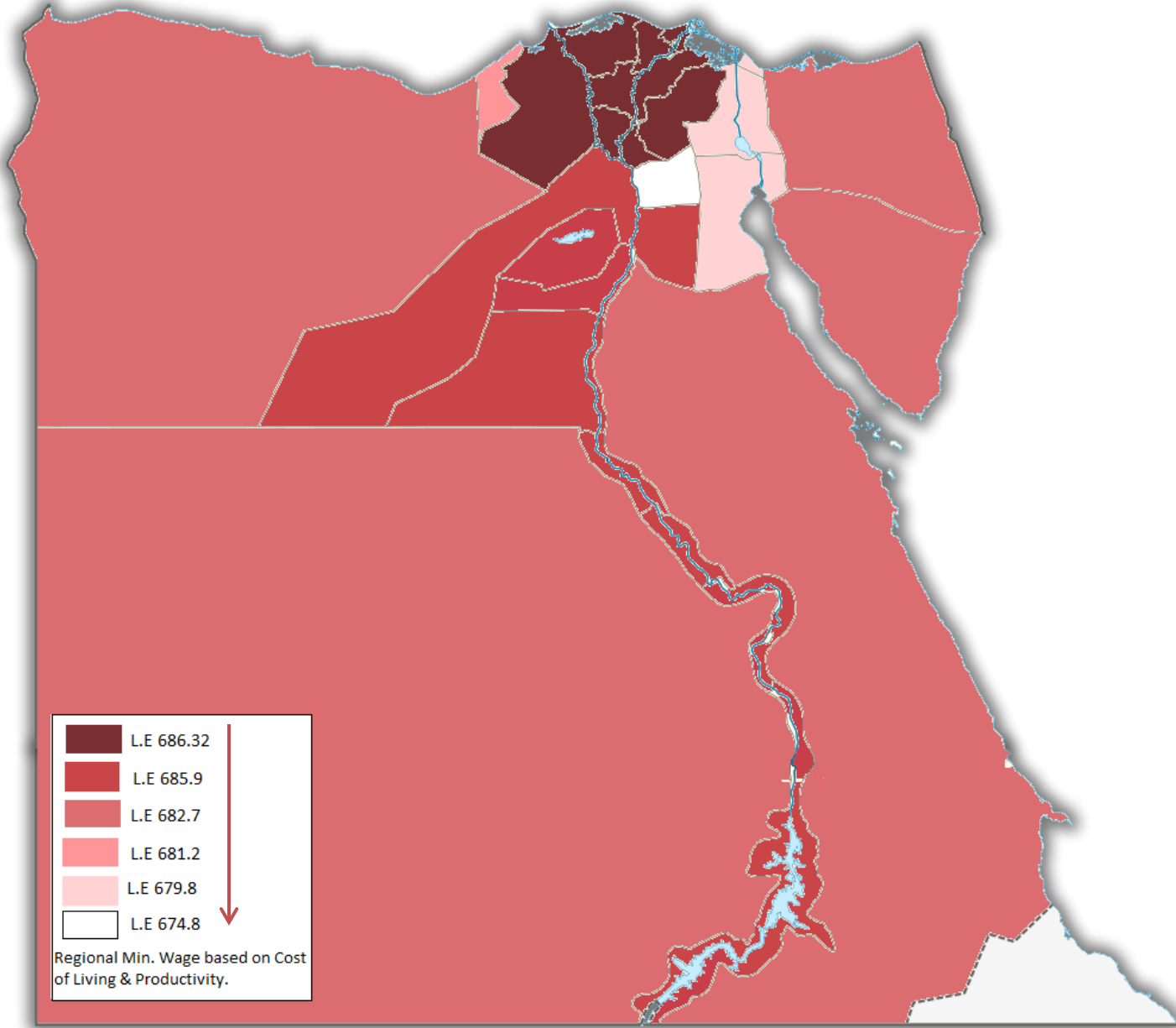
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To reconcile, combining wages adjusted to regional cost of living and productivity together, the distribution ranges from L.E 675 – 686 – where Lower Egypt suffers from the highest inflation rate and the lowest wage pay, in contrast to Urban regions with lowest inflation and highest wages.



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Map of the regional minimum wages, indicative of variation in cost of living & productivity.



Exceptions:

- **Juveniles:** Some countries apply a lower MW for young workers, to ease their access to the labor market
- **Small Enterprises:** To protect growing small enterprises from shutting down, enterprises hiring less than 10 workers are excluded from MW.
- **Informality:** Informal sector is not bound to a minimum wage, which represents 50% (more or less) of Egypt's GDP.

Enforcement Guidelines:

1. Clear announcement for MW policy
2. A sufficient number of well trained inspectors
3. Rule of law and adequate penalties for infringement of the provisions relating to MW
4. Simple legal procedures to enable workers to exercise their rights under MW provisions
5. Empowering employers' and workers' organizations as well as Labor Market Institutions and easing it's rigidity.
6. Protection of workers against victimization

Towards better Social Justice in Egypt

I.

- Mobilize demand for employment by increasing investment in sectors where there is a scope to grow jobs based on productivity and increase incentives for formalization.

II.

- Vary the minimum wage policy across regions to take into account intra-national disparities of productivity and cost of living (inflation).