

Is the Egyptian economy creating good jobs? A review of the evolution of the quantity and quality of employment in Egypt from 1998 to 2018.

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About the authors

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Key question

- *Has the economic recovery in Egypt resulted in more and better-quality jobs?*

In a nutshell

- *Despite a recovery in economic growth, employment rates have not recovered since they began declining in 2011*
- *The informalization of employment has continued apace as public sector employment declines and formal private sector employment growth remains anemic*
- *Informalization of employment has hit the middle class particularly hard*
- *The rapid growth of the construction and transport industries has contributed to the growth of informal employment outside fixed establishments, which is one of the most vulnerable forms of employment to economic downturns*
- *Real wages have declined across the board and wage inequality has increased*
- *A silver lining is that the job security of informal workers has improved since the depth of the crisis in 2012*
- *Subjective reports of job satisfaction agree strongly with objective employment conditions, with workers in the most vulnerable employment states being the least satisfied*
- *These most vulnerable workers are also the ones that express the greatest increases in job satisfaction from 2012 to 2018 as their job security improved*

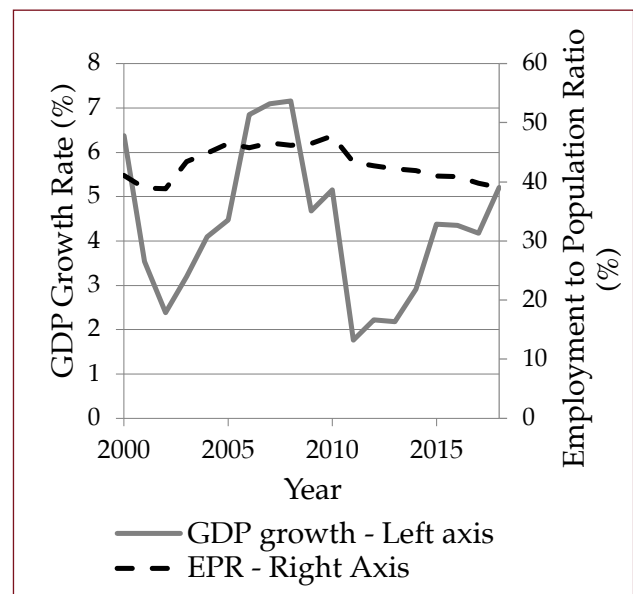
Is the Egyptian economy creating good jobs? A review of the evolution of the quantity The Egyptian economy has experienced a substantial recovery in growth since the downturn it experienced following the Global Financial Crisis and the political instability that followed the January 25th 2011 revolution. As shown in Figure 1, the rate of GDP growth increased from nearly 2% per year in 2012 and 2013 to more than 5% per year in 2018, and growth is projected to reach 5.5% in 2019 (IMF, 2019).

The question I address in this brief is whether this recovery in economic growth has translated into more and better jobs for Egyptian workers. The recent release of the results of the 2018 wave of the Egypt Labor Market Panel Survey (ELMPS) allows us to respond to this question, among others.¹ The short answer is “not yet”. Both the quantity and quality of jobs have continued to decline in recent years, with only a few positive signs appearing on the horizon, namely greater job security for some of Egypt’s most vulnerable workers as the economy recovers. Real wages have declined substantially as a result of the inflationary spike that followed the floatation and sharp devaluation of the Egyptian pound in late 2016. Informalization has continued apace as the public sector continued to shrink and employment growth in the formal private sector continued to be slow. The rapid growth of the construction and transport industries relative to that of agriculture, manufacturing and some services, such as education and health, has resulted in the disproportionate growth of informal employment outside fixed establishments, which is one of the most vulnerable forms of employment in Egypt. Young people, young men in particular, are taking longer to obtain their first job, and their first jobs are increasingly informal (Amer & Attalah, 2019).

Unlike previous recoveries, the quantity of employment, as measured by the employment-to-population ratio, or, more simply, the employment

rate, has not (yet) responded to the recovery in growth. The employment rate has, in fact, declined steadily since its last peak in 2010. As shown in Figure 1, the employment rate in 2018, according to the official Labor Force Survey, was more than 8.5 percentage points lower than it was in 2010. This decline in employment rates is not translating into rising unemployment rates because the labor force itself is growing more slowly in part due to a temporary decline in the growth of the youth and young adult populations and, in part, due to falling participation rates (Krafft, Assaad, & Keo, 2019).

Figure 1. Annual GDP growth rate and employment-to-population ratio (EPR), population aged 15+



Source: Assaad, AlSharawy & Salemi (2019) based on data from World Bank Development Indicators and CAPMAS Labor Force Survey.

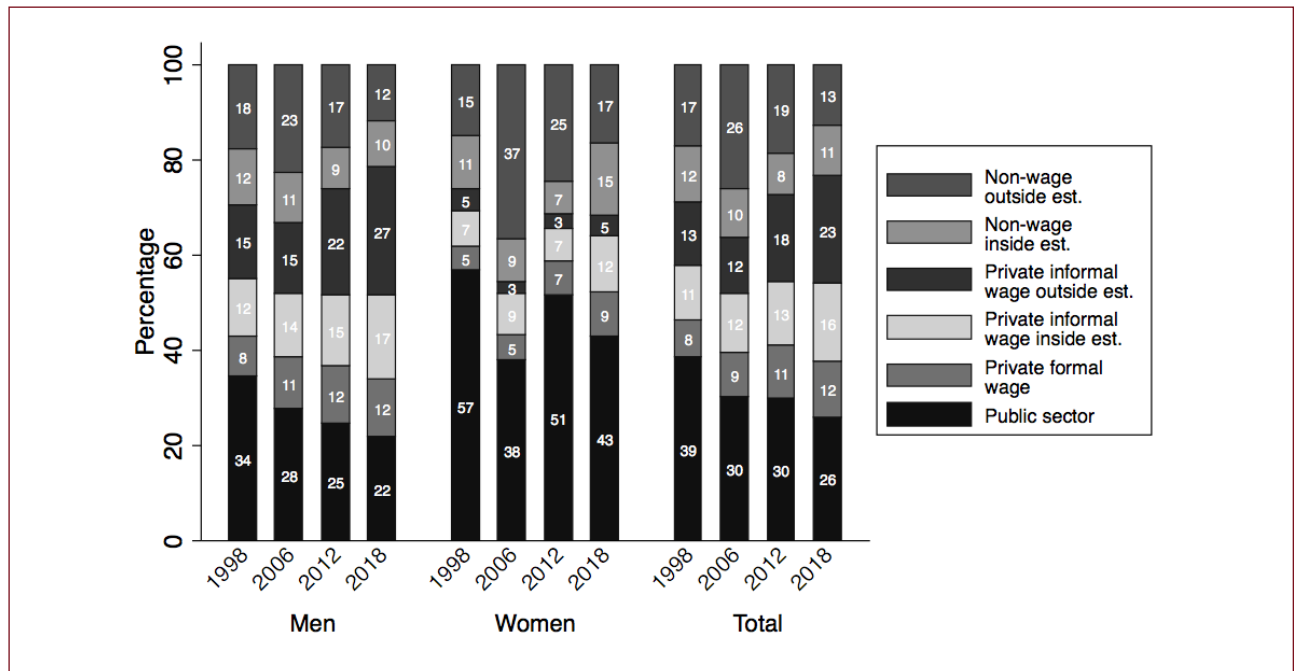
In terms of the composition of employment, the most notable trends have been the steady decline in the share of the public sector, a slow rise in formal private wage employment, and a much more substantial rise in informal wage employment. As shown in Figure 2, the share of informal wage employment

¹ This policy brief draws on a number of recent ERF working papers discussing the results of the 2018 wave of the ELMPS. These include Amer & Attalah (2019); Assaad, AlSharawy, & Salemi (2019); Barsoum & Abdalla (2019); Said, Galal, & Sami (2019)

outside establishments has increased especially fast from 12% of total employment in 2006 to 18% in 2012 to 23% in 2018. This form of employment is most vulnerable to job insecurity, as measured by irregularity of employment and involuntary part-time work. It also has some of the highest rates of exposure to occupational hazards and injuries. The

growth of these kinds of jobs is associated with the disproportionate growth of the construction and transport industries in Egypt in recent years. The share construction in total employment has increased from 8% in 2006 to 13% in 2018 and that of transport and storage has increased from 6% in 2006 to 9% in 2018 (Assaad, AlSharawy & Salemi, 2019).

Figure 2. The structure of employment by type and sex, employed individuals aged 15-64, 1998, 2006, 2012, 2018.



Source: Assaad, AlSharawy & Salemi (2019) based on data from ELMPS.

The informalization of employment has affected the Egyptian middle class particularly hard. While the bottom quintiles of the wealth distribution never had much access to formal jobs, the second to the fourth quintiles saw substantial declines in access to such employment, with much of the difference being taken up by informal employment outside fixed establishments. The reduced access to formal employment is primarily the result of declining rates of public sector employment, with minimal growth in the share of formal private sector employment for the middle class.

Within employment in private establishments, there is evidence from both establishment and household surveys of the re-emergence of the “missing middle” in Egypt. Traditionally, small and medium enterprises in Egypt had been under-represented in the structure of employment compared to micro and large enterprises. This pattern appears to be changing since 2006, with employment in small establishment (5-24 workers) and in medium establishments (25-199 workers) growing more rapidly than in either micro (1-4 workers) or large establishments (200+ workers) (Assaad, Krafft, Rahman, & Selwaness,

2019). This bodes well for the quality of employment in the future since small and medium establishments tend to have higher rates than micro establishments of employment formality and a higher incidence of non-wage benefits, such as paid leaves and health insurance.

A comparison of wages, whether monthly or hourly, between 2012 and 2018 shows that wages have not kept up with inflation over this period, leading to an absolute decline in real wages. Median real monthly wages have declined by 9% over the period, after having risen by 6% from 2006 to 2012 (Said, Galal, & Sami, 2019). Similarly, median hourly wages declined by 11% from 2012 to 2018 compared to an increase of 12.5% in the previous six-year period. Real wages declines were larger for female workers, for workers in urban areas, for medium and high skill workers compared to low-skill workers, and for private sector workers (both formal and informal) compared to public sector workers. Wage inequality also increased substantially from 2012 to 2018 after being quite stable from 2006 to 2012 (Ibid.).

Despite the generally negative trends of greater job informality and lower real wages, a few indicators of job quality showed improvement, namely those having to do with the job security of informal workers. The proportion of workers reporting irregular (i.e. intermittent or seasonal) employment fell from 40% in 2012 to 30% in 2018 (Assaad, AlSharawy, & Salemi, 2019). This kind of employment is particularly prevalent among wage workers working outside fixed establishments, which saw the extent of irregularity among them fall from 73% in 2012 to 53% in 2018. Irregularity also fell somewhat for wage workers in micro and small establishments, but from much lower levels. Similarly, the extent of involuntary part-time work, a sign of job insecurity that is most prevalent among workers outside fixed establishments, also fell from 2012 to 2018, after having increased appreciably from 2006 to 2012. Both these indicators are highly susceptible to the business cycle and improved with the recovery in economic activity. Nevertheless, the rising proportion of informal workers working outside fixed establishments associated with the growth of

the construction and transport industries increases vulnerability to the next economic downturn.

Part of the decline in job quality in the Egyptian labor market is associated with the declining role of the public sector in hiring. Public sector hiring secondary school and university graduates, in particular, has declined sharply as the share of these graduates among the employed increased. As recently as the 1994 graduation year, 80% of graduates who eventually obtained employment were employed by the public sector (Barsoum & Abdalla, 2019). By the 2015 graduation cohort, less than 30% of graduates were obtaining public sector jobs.

The quality of jobs in the public sector is clearly superior to the average job in the private sector. After correcting for human capital characteristics such as education and experience, male public sector workers earned 15% more and female public sector workers earned a whopping 54% more than their private sector counterparts in 2018 (Said et al., 2019). These wage premia in favor of public sector workers have actually increased since 2012 when they were 12% and 26% for males and females, respectively (Ibid.). Similarly, public sector jobs provide much better employment conditions than either the formal or informal private sectors. While 93% of public sector employees with secondary education or above have social insurance, only 34% of their formal private sector counterparts do (Barsoum & Abdalla, 2019). Similarly, while 94% have paid leaves, only 47% of their formal private sector counterparts do. Finally, public sector workers have much shorter work weeks than their formal private sector counterparts; they work on average 35 hours per week compared to 45 hours per week in the formal private sector (Ibid.).

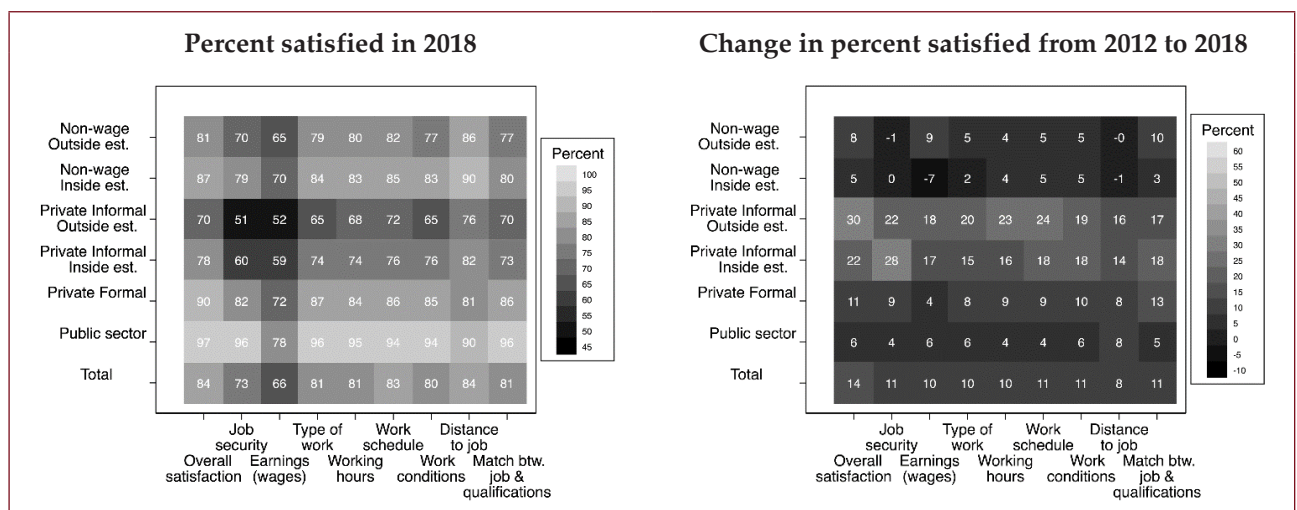
Slowing down hiring in the public sector makes a lot of policy sense given the excessive use of public sector hiring for political reasons since the 1960s. However, maintaining much better conditions of employment for public sector workers relative to comparable private sector workers contributes to undesirable labor market segmentation, which results in queuing for public sector jobs and higher unemployment rates among educated youth who aspire to obtain

these jobs (Assaad, 1997, 2014). Similarly, policies, such as the ones currently in force in Egypt, that apply minimum wages only to public sector workers and not to the private sector contribute to this segmentation and should be avoided.

Finally, both the 2012 and 2018 waves of the ELMPS include questions about overall job satisfaction and satisfaction with specific aspects of one's employment. It is quite striking how much workers' subjective assessments of their jobs coincide with the objective conditions of their jobs. As shown in Figure 3, the least satisfied workers overall in 2018 are private informal workers working outside establishments, followed by their counterparts working inside establishments, an ordering that matches exactly objective measures of job quality. These workers are particularly dissatisfied with their job security and earnings levels. The most satisfied workers overall are public sector workers, who express high satisfaction levels with all aspects of their jobs, with the possible exception of earnings. However, even along this dimension, they have the highest levels of satisfaction compared to all other categories of workers.

With regard to changes in job satisfaction levels over time, we find that, overall, the percent of workers satisfied with their jobs has increased slightly over time (right panel of Figure 3). However, it should be kept in mind that these figures are based on following the same workers over time and thus tracing satisfaction among workers who are becoming more established in their jobs. They also miss the new entrants who may be the least satisfied with the jobs they are able to get. It is therefore somewhat expected that their satisfaction levels will rise overall. The largest positive changes in satisfaction occurred for informal wage workers outside establishments, followed by those inside establishments; the very categories of workers who reported the least job satisfaction in 2018. This shows that the gaps in satisfaction between these workers and other workers were even larger in 2012. The increase in satisfaction was due primarily to increases in satisfaction with job security, work hours and work schedules, all indicating more regular employment for these highly vulnerable workers.

Figure 3. Job satisfaction in 2018 and change in job satisfaction from 2012 to 2018 by job type, employed individuals, aged 15-64.



Source: Assaad, AlSharawy, & Salemi, (2019) based on data from ELMPS 2012 and 2018.

To conclude, it is clear that the recovery in economic growth in Egypt has not yet translated, for the most part, into either more employment or better-quality employment for Egyptians. The informalization of employment has continued apace as employment in the public sector continued to contract and that in the formal private sector continued to grow slowly. Informalization also results from the growing proportion of workers working outside fixed establishments in construction and transportation jobs. Although the job security of these workers has improved as the economy recovered, they remain highly vulnerable to any future economic downturn. The inflationary spike that followed the floatation of the Egyptian pound resulted in substantial erosion of real wages. Moreover, there was a sharp increase in the inequality of labor earnings, following a period where inequality had remained fairly stable.

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