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ECONOMIC REFORM AND LABOR DISPLACEMENT IN EGYPT

by

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ECONOMIC REFORM AND LABOR DISPLACEMENT IN EGYPT

Summary

The fear of labor displacements is a major impediment to Egypt's economic reform program particularly in the program to privatize parastatals. In this paper we illuminate the extent of the labor displacement problem due to economic reforms and privatization.

There is no consensus in the literature on the extent of unemployment that accompanies privatization programs. We estimate 250,000 public sector employees would be displaced due to economic reforms including privatization. This is hardly a major economic problem in an economy that must generate 4.5 million jobs for new entrants to the labor force in the next decade, though it could be a serious political problem. We argue that the best way to address the labor displacement problem is to create more efficient labor markets, thus facilitating the reduction in the social cost of adjustment. The paper proposes labor market reforms and a modest temporary program directed at the displaced workers.

I. Introduction

It appears clear that a major impediment to rapid Egyptian economic reform is the fear of labor displacements. This fear is in part based on a lack of information on the extent of labor displacements

that may occur due to economic reforms and in particular privatization of parastatals. In this paper we attempt to illuminate the extent of the labor displacement problem due to economic reforms and privatization.

II. Why Privatize?

The reasons why countries decide to privatize public enterprises varies, but they usually reflect a belief in market forces. Bienen and Waterbury (1989) stated that the objective of privatization is to reconstruct these enterprises in order to create conditions that make these operations more efficient.

Privatization of parastatals was encouraged by the newly conservative governments in many developed countries in the late 1970s and early 1980s as a result of frustration with the deficits and perceived inefficiencies of these parastatals (Bienen and Waterbury, 1989). During this time while developed countries were facing deficits and inflation, developing countries were faced with a similar, but much more severe set of problems, e.g. growing current account imbalances, increasing external debt, unfavorable terms of trade, and rising government budget deficits. Due to these problems, the appeal of privatization spread from the developed to the developing countries. Most developing countries implemented privatization policies through the conditions attached to structural and sectoral adjustment loans made by the World Bank and supported by bilateral donors.

III. Examples of the Impact of Privatization on Labor Displacement

There is no consensus in the literature on the extent and duration of unemployment that would accompany privatization programs (Azariadas and Stiglitz, 1983). Economists stress differing factors that may determine unemployment such as price and wage expectations that are slow to adjust, explicit wage contracts with fixed horizons that are not coordinated among employers, implicit contracts between employers and employees that favor layoffs over wage cuts, or mechanisms for job search (Azariadas and Stiglitz, 1983).

Privatization is usually one part of a set of structural adjustment programs. For example in Mexico, privatization is taking place along with credit contraction, fiscal austerity and trade liberalization. Labor displacements may be caused more by the reform's fiscal austerity and credit contraction than by privatization. This all serves to make it difficult to pinpoint how privatization affects unemployment.

The effects of privatization on the general population are unlikely to be significant. Public enterprise employees are not typically among the poorest in most of these countries, and privatization is unlikely to make them so, even if it may bring about hardship for certain laid off employees.

Opposition to privatization by those affected has been strong. Privatization is often expected to lead to cutbacks in personnel. Generally speaking, privatization will usually not include dramatic labor displacement. Berg and Shirley (1987) state that "mothballing" of public enterprises, where they are allowed to sit idle and waste away over long periods of time, is used as a viable strategy to diffuse labor unrest over privatization.

There have been few examples in developing country privatization experiences of the massive restructuring of highly-unionized concerns in Western Europe, which laid off tens of thousands of employees and depressed the economies of entire regions. For example in Brazil, only one of the 17 public enterprises privatized as of 1985 had more than 1,000 employees, and the 18 firms being considered for privatization in Costa Rica employ less than 1 percent of the labor force.

Cutting public sector employment is more difficult in countries where the public sector employs a large proportion of total nonagricultural labor. In the 1980s, public sector workers in Africa were 54 percent of nonagricultural employees compared to corresponding figures for Asia of 36 percent and for Latin America of 27 percent (Heller and Tait, 1983). Cutting public sector employment is especially hard where reemployment of public enterprise workers is difficult. This has not though stopped the displacement of public enterprise workers in developing countries,

however.

In Ghana, in 1986 retrenchment at the Cocoa Marketing Board resulted in 16,000 workers laid off. The government found it very expensive to compensate the laid off workers and needed to abrogate the deal they made due to the expense (World Bank, 1989). In the Gambia 2,000 employees were laid off in 1990 due to privatization activities (Nunberg and Nellis, 1990). In Somalia the government in 1985 terminated nearly 5,000 civil servants. In El Salvador in 1991 a public agency with 1,446 employees was disbanded (Gregory, 1992). In Benin during the late 1980s early 1990, 3,000 employees of liquidated parastatals became unemployed; in Mali, 700 employees of parastatals were laid off; and in Tunisia there has been recently over 1,600 former parastatal employees terminated (Kikeri, 1990).

In the Philippines, where overstaffing has been less of a problem, 80 percent of workers were rehired by the divested companies. Similar experiences were recorded for Panama and Malaysia (Kikeri, 1990).

In 1991 Svejnar and Terrell conducted a series of labor redundancy studies in the transport sector for the World Bank. The countries studied were Brazil, Chile, Ghana, Sri Lanka, and Yugoslavia. In each country the World Bank found special provisions were made for the redundant workers. There were many variations of the layoff package but all attempted to sweeten voluntary retirements in order

to manage the labor redundancy problem. By and large the plans worked.

IV. Privatization in Egypt

If we look at modern historical trends a good place to start is in the 1960s when Egypt nationalized many of its industries. Most were concentrated in manufacturing. The public sector was a major source of employment for new labor entrants during the decades from the 1960s through the 1980s. By 1987 the public sector accounted for 53 percent of non-agricultural employment.

During the 1970s and early 1980s, the informal and public sectors were the principal sources of employment for Egypt's rapidly expanding labor force. The informal sector offered the only source of expanding productive employment in the past decade. Over 90 percent of private non-agricultural employment was located in establishments with less than 10 workers in the 1980s.

Egypt responded in the 1970s and 1980s to the challenge of its growing population and labor force. In the 1980s population growth averaged 2.8 percent. But high levels of employment were achieved by the overstaffing of government and public enterprises and the economy became heavily dependent on migration to the Gulf as a safety valve. Estimates of overstaffing range up to 40 percent (Hansen, 1985). Unemployment began to rise significantly in the mid 1980s. Government labor policies and regulations discouraged

employment creation in the modern private sector. As government economic policies slowed the pace of economic growth and employment creation in the mid-1980s, open unemployment started to rise. The strategy also unraveled with the decline in oil prices slowing the rate of economic growth and the expansion of employment. Government labor policies and regulations were an impediment to the economy's ability to adjust quickly to changing economic conditions.

The depressed economic situation prodded the government of Egypt (GOE) to initiate its first adjustment program in 1986 (when the world oil prices dropped reducing Egypt's main exports by more than 50 percent). This adjustment program was discussed with the Fund and other banks and formed the basis for the second development plan (FY 87-92). But the GOE dropped out of the Fund program and was unable by itself to overcome the major imbalances and distortions. Then the government devised its economic reform and structural adjustment program (ERSAP) that has as its ultimate goal sustainable economic growth and the improvement of the country's living standards. The program began in May 1990 supported by; the IMF Stand-by Arrangement (signed May 1991), the World Bank under the Structural Adjustment Loan (signed November 1991), the Social Fund (signed June 1991), and USAID especially through its Sector Reform Program (signed August 1992).

The Egyptian Government considers the reform of the public

enterprises as one of the most significant component of its adjustment program. The basic principle governing the restructuring of economic activity of the parastatals is the separation of ownership from management, so that the parastatals are managed in a business-like manner. In addition, the policy is to establish administrative, regulatory and pricing environments which are identical for both private and public sector activities, including the possibility of liquidating non-viable companies. The public enterprise law (Law 97) was been replaced by the new Law 203 and the Public Sector Organizations were converted into holding companies under the new law.

**V. Analysis of Number of Displaced Workers Displaced Workers
Due to Economic Reforms**

The extent to which parastatals will be privatized remains unclear. The Egyptian government limits the sale of parastatals to "non-strategic" firms. Integrated Development Consultants (IDC) in a USAID/Cairo sponsored study estimates that the firms most likely to be privatized have a total of 368,000 employees. The study estimates that over a third of this group (122,680) would become redundant were proposed reforms to occur.

The measure of the proportion of workers that are redundant adopted by IDC is a very rough estimate based on educated guesses and a World Bank publication estimating labor redundancy in the Egyptian railroad sector as a third (World Bank, 1991).

USAID/Cairo sponsored a more recent study (Integrated Development Consultants, 1992) of the personnel impact of the planned divestiture of the agricultural inputs sections of the Principal Bank for Development and Credit (PBDAC). As part of their study they examined the magnitude of labor redundancy. The level of redundancy was determined by examination of personnel databases. PBDAC has 32,617 employees: 7,525 in the banking sector, 12,580 in the non-banking sector and 12,503 in the support sector. IDC estimated redundancy to be 17,200: all of the non-banking sector and 4,626 in the support sector. The labor redundancy rate in the support sector is estimated to be 37 percent.

Utilizing IDC estimates on the number of workers in firms most likely to be privatized, Cao (1991) presented scenarios on the impact of privatization of parastatals on labor displacements. He defines the total number potential employees that could be affected as the 368,000 employees in non-strategic firms. Based on various scenarios the numbers to be laid off were optimistically 92,000, pessimistically 184,000, and a middle scenario of 123,000. The scenarios are dependent on how the GOE decides to carry out its plans, which are based on the perceived impacts of the plan. The optimistic scenario assumes 1/4 on the 368,000 employees will be displaced, the middle scenario 1/3, and the pessimistic scenario 1/2.

The World Bank in their Structural Adjustment Loan analysis

estimated 120,000 public enterprise workers will lose their jobs due to reforms (World Bank, 1991). The World Bank arrived at this number by estimating 10 percent of 1.2 million public enterprise workers will be displaced over 1 1/2 years. There was no delineation of which specific enterprises or workers may be affected. These numbers may underestimate the problem. The World Bank, IDC and Cao in their estimates may not have adequately accounted for the effects of agricultural reforms on the displacement of public sector workers.

One missing part of the World Bank labor redundancy estimate appears to be those employees who may be affected by the agricultural reforms supported by USAID. Those public enterprises and employees that are potentially affected by the agricultural reforms are mainly the public enterprise employees working in the Holding Companies for Agricultural Development, for Meat and Milk, for Poultry and Animal Production, for Seed Production, and for Land Reclamation (until recently these workers were part of the Ministry of Agriculture). In addition the public enterprise textile workers of the Holding Company for Textiles, fertilizer plant employees of the Holding Company for Chemical Industries, the rice mill, wheat flour mill, and bakery public enterprise workers in the Holding Companies for Rice Milling, Wheat and Flour Mills, and the public enterprise cotton ginning mill and cotton export employees in the Holding Company for Cotton Affairs are potentially affected. For the first former Ministry of Agriculture group, we

estimate 50 public enterprises employing 87,000 employees may be potentially affected by Agriculture sector policy reforms. In the textile sector there are 30 public enterprises employing 236,000 workers potentially affected by reforms. In the Food Supply Sector approximately 100,000 rice mill, flour mill, and bakery workers are potentially affected by reforms. In the cotton subsector 25,000 cotton ginning mill and cotton export company workers are potentially affected. In all 448,000 public sector enterprise employees in agribusiness are potentially affected by agricultural reforms.

Of course not all these workers would be displaced by the reforms. The impacts on the workers and enterprises depends on what policy reforms are actually implemented, how market forces are affected by these reforms, and how the GOE and public enterprises in turn react to these effects, as well as the impact of USAID and other donor agency (World Bank, IMF, etc.) interventions in the agriculture and textile sectors. However, if we use the World Bank one-third measure of labor redundancy $1/3 * 448,000$ employees or 149,333 employees stand to be displaced by agriculture reforms. Adding this to the 120,000 World Bank estimate from their SAL document yields 269,333 employees. We thus estimate about 269,000 public sector employees over the next few years may be displaced due to economic reforms. The exact number of years over which the employees will be displaced depends on the pace of privatization (which has been rather slow of late). A reasonable estimate is

that within 3-4 years the round of privatization associated with Egypt's current economic reform efforts should be completed. After this time the more profitable firms in Egypt should begin to have increased demand for labor, thus mitigating the labor displacement problem.

The above estimate of the number of displaced workers can be further refined by incorporating information on second jobs held by public sector workers. Accurate measures of the number of government workers with second jobs would be useful in order to more accurately assess the impacts of displacement of government workers due to economic reforms and privatization. Workers with second jobs often keep their first government jobs primarily for economic security reasons (World Bank, 1990). The worker often earns more per hour on the second job than the first. Elimination of the government job could result in higher incomes for the worker (with less security) if he/she extends his/her hours on the second job.

Secondary employment is a sensitive subject with both workers and employers. Many government employees, if asked in an official questionnaire, would deny having a second job since there are official restrictions to second jobs. For that reason, it is particularly difficult to obtain good data on it. Those workers more likely to have a second job are aged 30-49, the age group that tends to have the most family financial obligations and also the

health adequate to engage in a second job. Among this age group Fergany reports that 11 percent of primary job holders in the urban areas have a second job and 20 percent in rural areas (Fergany, 1990).

Government employees in the secondary job market almost inevitably have the second job in the private sector. Fergany (1990) estimates 98 percent of second jobs are in the private sector. Second jobs tend to be slightly more unstable than primary jobs and are, to a greater extent than primary jobs, in self employment and sales occupations.

Government workers with a second job often start their second job in the afternoon due to the early completion of the government workday. The average number of hours of work per day in second jobs is 4.18 in urban areas and 3.5 in rural areas. Urban males with second jobs work on average 4.26 hours per day in their second job (Fergany, 1990).

Using these conservative measures of second job participation among public sector workers, we can modify our estimates of displaced workers, at least those whom would be in need of an immediate job.

Of the 269,000 employees estimated to be displaced, we estimate 37,000 have second jobs in the private sector. Taking into account the part time employment nature of these second jobs, we can

further estimate the 37,000 employees represent 18,000 Full Time Equivalent employees. We can thus reduce our 269,000 estimate by 18,000 yielding 251,000, or roughly one-quarter of a million. This number represents the number of workers estimated to be displaced by the economic reform program who will need alternate employment or government compensation.

The above analysis probably excludes some firms in some industries that will be affected by privatization and other economic reforms. Our estimate, after appropriate explanations, corresponds with the estimates made by Cao, IDC and the World Bank. It is not feasible to obtain a more accurate figure without an in-depth survey.

Over the next decade Egypt will have to generate 4.5 million new jobs to provide work for the new entrants to the labor force (Richards, 1991). This estimate assumes no change in today's unemployment or female participation rates. In our view the labor redundancy problem is not a serious economic problem to Egypt. Two hundred and fifty thousand displaced employees in a \$40 billion dollar economy would not be a serious economic problem, particularly if it were spread over 3-4 years. However, a large political problem could develop if the GOE does not take effective action to alleviate the plight of the redundant labor. An angry group of educated, middle class, former public sector employees can cause instability if their problems are not dealt with effectively.

The next sections will present the argument that the best way to address the public sector displacement problem is to create more efficient labor markets in Egypt. An efficient labor market will facilitate change in the economy and reduce the social cost of adjustment. It will permit faster rates of economic growth and employment creation without accelerating inflationary pressures. An efficient labor market requires flexible wages linked to productivity and low barriers to labor mobility, both of which are lacking to a large degree in Egypt.

VI. Egyptian Labor Market Structure

Egypt's total labor force (age 6 and over) was estimated to be 20.14 million in 1990 (Fergany, 1990). Of these 13.13 million were males and 7.01 million females. In recent years the labor force was growing at the rate of 2.5 percent per year on average. The agricultural share of total employment declined from 48 percent in 1976 to 35 percent in 1990/91. The decline of agricultural employment produced a shift in employment from rural to urban areas.

The public sector in Egypt produces many of the goods and services that are generally produced by the private sector in most capitalist economies. Of the 18.15 million employed in Egypt, 4.98 million work in the public sector. Of these 4.98 million workers, almost 2 million work for parastatals and the rest in Government ministries and offices. Of total employment, over 27 percent is in

the public sector. Taking out agriculture, which consists largely of small farm owners and workers from these figures, over half of the remaining jobs are government jobs.

Unemployment has grown considerably in the 1980s. In 1981 the unemployment rate was 5.44 percent. In September 1991 it had grown to 10.04 rate. The official unemployment rate today according to CAPMAS is 12 percent, there are other higher estimates i.e. 14 percent (American Chamber of Commerce, 1991).

Females in Egypt suffer unemployment rates at much higher levels than males (Fergany, 1990). The female unemployment rate increases with urbanization. According to Fergany the male/female unemployment differential is lower in rural areas. Young females have about double the unemployment rate of young males. The gender differential narrows and then switches beyond age 40. The number of females over 40 in the labor force is rather small and they are usually highly qualified.

Interestingly enough the unemployment rate rises with educational attainment. Illiterates have the lowest unemployment rate and the smallest male/female sex differential rates.

Fergany reports that there is an extremely high presence of new entrants into the labor force within the ranks of the unemployed. Almost 60 percent of the unemployed in Egypt are new entrants to

the labor force. Unemployed males without previous work experience are almost entirely under age 30. For females new entrants to the labor force constituted the majority of unemployed females up to the age of 50. Females in general, found it much harder to get a job than males.

The profile of the currently unemployed differs significantly from that of the workers who are likely to be displaced by economic reforms and privatization. Most workers affected by the reforms will be public employees, male and experienced. These workers will be older than the new entrants to the work force and have more financial responsibilities. They would probably also have more contacts and more skills desired by the private sector. The reforms basically will hit the Egyptian urban middle class.

VII. Obstacles to Efficiency In Egyptian Labor Markets

A. Pervasive Government Role in Labor Markets

Despite the recent policy moves to encourage the expansion of the private sector, the public sector remains the major employer in the urban labor market. Fifty seven percent of all urban wage earners are employed in the public sector, with 37 percent in government and 20 percent in the public enterprise sector. Forty percent of all wage earners in rural areas are employed in the public sector (Fergany, 1990). In addition, the public sector is the dominant employer of educated labor. In urban areas, 74 percent of persons holding an intermediate or higher degree are employed in the public

sector. In rural areas more than 80 percent of the educated labor force are in the public sector.

The majority of wages and salaries paid in Egypt are paid by the government to its public sector employees. This being the case, it is fair to say that wage and salary earnings in Egypt are not predominately determined by the free interaction of supply and demand. Wages in the public sector are based on a system of pay grades. In 1962, the government pay scale was adopted by public enterprises to maintain equality between employees in the two sectors. In the years that followed, several laws were enacted to systematize and control employment and personnel affairs in government and public enterprises. A unified structure of basic wages applies to both government and public enterprises. The wage schedule covers 6 grades of labor, plus separate categories for Director Generals, Undersecretaries, and First Undersecretaries.

Wages in government and public enterprises have little to do with productivity in Egypt. They represent social policy and budgetary pressures. The social policy is to equalize wages and to be the employer of last resort. The government focuses on education credentials as a condition for employment guarantees. Incentive payments are small and spread uniformly among workers. The public enterprises tend to use wage incentives more frequently than the government agencies because they have more leeway. The Ministry of Defense production facilities in particular have more leeway than

most government entities.

Wages in the private sector to a much greater extent than the public sector appear to be set by market conditions. For example, wages in the government were higher than the private sector in the 1970s, but in the 1980s the gap narrowed and now they are higher in the private sector, reflecting the growing scarcity of production labor in the private sector.

B. Regulations

Government labor policies and regulations discouraged employment creation in the modern private sector. As government economic policies slowed the pace of economic growth and employment creation in the mid-1980s, open unemployment started to rise.

Regulation of layoffs under Public Law 137-1981 leads to labor being treated as a quasi-fixed factor of production. Government approval is necessary to dismiss workers. To avoid the hassle, private employers prefer to hire fewer workers and have them work longer hours. The regulations have the perverse effects of encouraging capital intensive development in a labor surplus economy. Rather than create jobs, enterprises search for ways to mechanize to avoid the obligations of more employees (World Bank, 1990). This introduction of rigidity in the system also impedes the mobility of resources from less productive to more productive activities (World Bank, 1990).

The government also interferes in job placements in the private sector. Workers have to be registered in a government office before they can be employed by an enterprise. This law is mainly enforced with larger firms, foreign owned firms and embassies. Firms who do not conform to this regulation can be fined - an impediment to labor mobility and an extra expense.

The pervasive nature of the government's role in the labor markets extends to the private sector. Government regulations on hiring, firing, and pricing profoundly affects the private sector. For example, Egyptian law makes explicit provision for discharge with cause. However, the decision to fire must be reviewed by a tripartite committee before it becomes effective. The law makes no provision for layoffs or discharge of workers who are not needed (Integrated Development Consultants, 1990). These laws, like the regulations have the perverse affect of stimulate capital intensive growth in a labor surplus economy.

C. Discrimination in the Labor Market

There is a consistent pattern of lower wages for female workers. Women are grossly under-represented in the more highly paid jobs. For example less than 1 percent of toolmakers, mechanics, electricians, and plumbers are women (Handoussa and Potter, 1991). In occupations in which women predominate the wage rate is greatly depressed. Zaytoun (1990) argues that remuneration is more compressed in public versus private enterprises. The highest wage

differentials exist in the private sector where women wage earners receive about 1/2 what men do for similar work (CAPMAS, 1987).

A major problem in Egypt is the number of children in the labor force. Based on the Fergany report, in 1990 over 1.8 million under age 14 are in the labor force. Of these children, over 500 thousand are aged 5-9. Twenty four percent of boys aged 12-14 are in the labor force and 20 percent of girls. Even at ages 6-11, 7.2 percent of boys and 7.5 percent of girls are in the labor force. This labor force participation by children is illegal; it is prohibited to employ or train children before they reach 12 years of age (for certain occupations and employers the minimum age is 18 years). School is compulsory until the age of 15. Four fifths of child workers are in agriculture, and of these, over 50 percent are illiterate (Al-Shaab Newspaper, 1991).

D. Structural Rigidities

Government labor policies have created a segmented labor market. The security of government employment has been a major attraction. The attraction of government employment has driven up the wage costs of the private sector by restricting the labor pool available to it. This has been mitigated by the GOE allowing real wages to fall and the tacit approval of multiple job holdings by civil servants (World Bank, 1990).

Government employment guarantees for graduates of secondary and

post secondary institutions have added another dimension of market segmentation. The government job guarantee serves to increase open unemployment since one must be registered as unemployed in order to claim the guarantee. In 1986, secondary and post-secondary graduates represented 84 percent of open unemployment.

The policy of guaranteed employment in the public sector has been practically suspended since the early 1980s. Graduates in 1983 are just now being selectively employed on an as needed basis under this guarantee. While the application of the guarantee has been greatly curtailed since 1986, it has left a legacy of redundancy throughout the public enterprise sector.

Egypt also suffers from structural unemployment resulting from fundamental variations in the economy such as changes in technology, markets or national priorities. Often a mismatch in skills between those seeking employment and the existing jobs results from these changes. The maladjustment in skill levels is of a long term nature and is often difficult to correct. The educational system in Egypt is one of the major culprits in producing structural rigidities in the system. Free college education combined with the guaranteed government jobs for graduates had greatly increased university enrollments producing generations of educated graduates whose major employment focus is waiting for make-work government jobs. This resulted in overstaffing, depressed wages, dependency on the government and

most important of all, perversion of employee incentives for hard work, creativity, and maintenance and development of skills.

E. Labor Market Information

In Egypt a major ingredient causing frictional unemployment is the lack of information on the part of both buyers and sellers of labor. There is a serious lack of timely and accurate information on labor force data on the both the regional and occupational level. Short-term irregularities in the demand for labor by particular industries and enterprises are exacerbated by the lack of timely information.

VIII. Proposed Labor Reforms

The proposed labor reforms are categorized into five areas where reforms are necessary to help produce efficient and effective labor markets. These areas of reform are: Information, Regulations, Displacement of Workers, Public Sector Specific, and Discrimination in the Work Place. These labor policy reforms are intended to reduce the potential impact of labor displacements on Egypt's Economic Reform Program.

A. Information

To reduce unnecessary frictional unemployment and help facilitate more efficient labor markets, the GOE must improve its labor market information and dissemination systems. Systems to collect and disseminate timely and accurate labor force, employment, and

unemployment statistics by region and occupation need to be implemented. Studies such as those done by Fergany and Handoussa point out the inaccuracies and inconsistencies of official government statistics. Specific proposals are:

- A special government task force to make recommendations for improving the labor market information provided by CAPMAS, the Ministry of Planning, and the Ministry of Manpower.

- The U.S. government is particularly good in producing and disseminating labor market information. Technical assistance from the U.S. Bureau of Labor Statistics (BLS) to the GOE may be warranted at the appropriate time.

B. Regulations

Government regulations adversely affect both the public and private sector labor markets. Besides health, safety and minimum age regulations, the government should restrain itself from regulating the employer-employee relationships that distort the operation and efficiency of labor markets and increase the cost of labor. Specific proposals are:

- Government interference in job placements through the Ministry of Manpower and its employment service should be eliminated;

- Amending the government's regulations of dismissals in Public Law 137-1981 to reduce barriers to labor mobility. By making it difficult to displace redundant labor, enterprises are forced to treat labor as a fixed resource, which discourages employment creation.

- The university graduate job guarantee should be repealed completely. Today even with an 8 year wait for guaranteed jobs many graduates have the incentive to remain off the books maintaining their officially unemployed status while waiting for a guaranteed government job. The guarantee also provides incentives for increased university enrollments.

C. Displacement of Workers

There are several views associated with what if anything should be done about labor redundancy resulting from implementation of economic reforms. One view is that labor redundancy is not a serious problem. The argument is that the prevailing wage is so low that even with excessive numbers of workers the total wage bill is a small part of total costs. Privatization is likely to lead to a rapid expansion of markets so that those workers who were redundant can be absorbed effectively.

A second view is that excess labor in the public enterprises is a serious problem to both public and private enterprises. Any solution must involve discharges of labor but given the high

unemployment this would cause unacceptable hardship. Therefore any changes should proceed slowly with adequate consideration for the affected workers.

A third view is that labor redundancy is such a serious problem that it cannot be confronted with the current legal structure. People who adhere to this view consider the prospects for privatization of firms with significant amounts of unneeded workers as minimal.

This paper presents a moderate proposal which supports the private sector focus of much of USAID/Egypt's program. The proposal is for the GOE and donor organizations to finance the first year's salary in a private sector company of a previously employed public sector employee, if the company agrees to provide on-the-job training and a year's employment for the displaced employee. The private sector company in effect will have the former public sector employee free for one year. In this way there will be a one year commitment to the displaced worker who will be trained in job specific skills in the new job in the private sector. After the worker is trained the employer will have the incentive to hold on to the employee. Adequate safeguards must be built into the system to discourage phony employment arrangements and/or revolving door placements of employees by the employer. The cost of such a program can be roughly estimated by taking 251,000 public sector workers displaced over three years multiplied by the average total earnings of 2,000

LE per public sector employee which yields 502 million LE over three years or 167 million LE per year.

D. Public Sector Specific

The sheer size of the public sector in Egypt has distorted employment patterns, worker incentives, and reduced the overall efficiency and effectiveness of labor markets. Suggested reforms for this sector are:

- Introducing a civil service reform to improve the link between wages and productivity. This would require a plan for the organizational and personnel structure of government, policies for merit selection, determination of the numbers of redundant workers, and procedures for implementation of the reform.
- Implementing wage and employment policies in public enterprises that are consistent with market conditions, in order to encourage a closer connection between wages and productivity. This would involve uncoupling wage and employment policies in these enterprises from those of government under Public Law 48.
- A five year strictly implemented government wide flexible freeze on new hires. The legacy of government guarantees of the educated young needs to be broken.
- Accelerate the privatization of public enterprises. For

enterprises which are not viable business concerns, the liquidation and sale of their assets needs to be considered.

E. Discrimination in the Workplace

Women have the lowest pay, the highest unemployment, and the poorest jobs in Egypt. We are not proposing here an American style affirmative action or anti-discriminatory program. But, it is important to keep in mind that if the economic reforms work, the private sector should grow while the public sector decreases. It is in the public sector where women enjoy greater equality of wages with men and it is the private sector where there is greater wage and employment disparity. Specific proposals:

- A study of women in the Egyptian labor force and how economic reforms are affecting them needs to be undertaken.

- Some sort of non-discriminatory wage and employment laws focused particularly on the private sector will need to be promulgated.

Concerning children, there are 1.8 million children in the labor force under age 14. Strict enforcement of child labor laws must be implemented. This policy, besides improving the educational attainment of children, may help to employ more adults and raise wages for the unskilled.

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