

Labor market for university graduates economics essay



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For quite some time, Egypt has suffered chronic unemployment with the unemployment rates hovering during the past decade well above 9 percent. Like several other developing countries, the unemployment problem in Egypt is prevalent among university graduates. In 2008, almost 17 percent of Egypt's labor force had a university degree. University graduates, however, represented approximately one third of the unemployed labor versus 2% of illiterates (CAPMAS 2008). The noticeably high unemployment rates among university graduates represent a heavy drain on the country's scarce human and financial resources.

Those distortions in the graduates labor market in terms of skills needed by employers and those offered by workers are mainly the outcome of prolonged policies that failed to promote economic growth and increase employment. Although, Egypt took a concrete steps and adopted active labor market policies towards the youth, the mismatch problem still exists. Gobbi (2005) diagnosed this phenomenon as follows: the existence of poor data on the labor demand needs, it is difficult to cope with dynamics of the labor market, only 5% received guidance from the authority to training centers and finally the low quality of the training due to lack of funds, shortage of competent trainers, scarcity of modern equipment and innovative methods, and insufficient course duration. Those distortions highlights the need to understand the status and imbalances in the university graduates labor markets and identify appropriate strategies to reduce unemployment and improve the well being and opportunities of the university graduates.

Although individual welfare in Egypt is correlated with university graduation, [1] the labor markets for university graduates has not been sufficiently efficient. The inefficiencies are an outcome of the particular structure and features of those markets on both the demand and supply sides.

There is an extensive body of research literature that examines the main features of the labor markets for university graduates in Egypt. The research suggests that the field of study—classified according to academic department—has a significant effect on the labor market for the university graduates. For instance, it is likely that the medical school, pharmacy and engineering graduates may—on average—achieve better labor market outcomes in comparison with the holders of Bachelor of Arts degrees. Moreover, the nature of the university ownership (public, private or foreign) may affect its graduates labor market opportunities and expected lifetime incomes. Further, there is an increasing tendency towards recruiting graduates from foreign universities/sections. Hence, graduates from Arabic sections in commerce and law—for example—don't have the opportunity to penetrate the labor market. The same applies to faculties that do not generate the required skilled labor for the society like humanities and agriculture (OECD and IBRD-The World Bank 2010).

Gender-specific differences—particularly on the demand side—have been observed to influence the labor market decisions and potentials for the university graduates leading to unequivocal male dominance. This is manifested by the staggering 71 percent representation of males in the total number of employed university graduates. Other personal, demographic, spatial and household characteristics influence the graduates' labor market <https://assignbuster.com/labor-market-for-university-graduates-economics-essay/>

decisions importantly, marital status and location of residence. According to the 1998 and 2006 Egyptian Labor Market Surveys, unmarried women experienced faster transition from university-to-work vis-à-vis married women. Alternatively, university graduates in urban areas represent almost 70 percent of the total number of employed university graduates owing to the low number of job opportunities suitable for their skills in the rural region. The rural university graduates' access to employment and wage potentials is further curtailed by the high economic costs of migration across the rural urban divide generally because of the higher costs of urban reallocation.

The above characteristics imply that the university graduates labor markets in Egypt are highly segmented. They are also influenced by non-competitive forces, which act as barriers to equitable access to employment opportunities and to fair wage compensations. Hence, personal, clan- and family-based connections and networks, communal norms and opportunistic rent-seeking behavior can pay for having a good job and raise the probability of accessing the labor market.

As in many developing countries, there is a mismatch between Egyptian university graduates labor market realities and its institutions. Moreover, Employment Guarantee Scheme established in the 1960s lead to lowering the quality of education at all levels, and the growing number of graduates led to queuing for government jobs (Birdsall and O'Connell 1999).

Examining the characteristics of informal workers in 1998 and 2006 marked the increase in the share of youth (20-29 years old) among informal workers.

Moreover, the share of university graduates has increased slightly over this period suggesting that more university graduates are informally employed in 2006 than in 1998 (Wahba 2009).

Based on what shown above the Egyptian educational expansion is not translated into higher productivity and income for graduates, instead it induces diminishing returns. The reasons behind that are the shortage of Egypt's education policy to efficient-enhancing discipline necessary for enhancing the graduated workers' competitiveness in the export market, and the labor market regime and regulations that leads to an increase in the cost of labor and rigidities in the labor market (Birdsall and O'Connell 1999). Therefore, it is of paramount interest that all players in the graduates labor market- the government, the university system administrators, employers and graduates themselves- must endeavor to put an end to this vicious circle.

The main object of this research is to analyze the structure of the labor market for university graduates in Egypt and suggest pragmatic strategies to increase its efficiency. Because of the statistical deficiencies of the labor market data in Egypt, the proposed research will be based on a new stylized dataset for the supply and demand for university graduates. The remainder of this proposal is divided as follows.

II. Objective

The proposed research aims at informing the Egyptian decision makers in addressing fundamental policy issues concerning the supply and demand of university graduates and their movements in the labor markets.

Consequently, the analysis should be able to improve the decision makers' understanding of the different factors driving unemployment not only among university graduates but also in the overall economy via studying the processes and market and non-market institutions involved in the flow of university graduates in and out of establishments, university graduates (mis)match with jobs and the distribution of university graduates across sectors. Importantly, the study will consider the determination of the wage structure and the relationship of vacancies and unemployment cross different sectors and year of graduation. Specifically, the research will cover the following main issues.

1. Analysis of the structure of the Egyptian university graduates' labor markets. This includes an overview of the relative wage/earnings structure (including all types of benefits) and the sources of wage inequality by type of employment, job, gender, enterprise, demographic characteristics, region, etc. The study will aim at examining the university graduates labor supply and demand sides. Hence, the study shall explore the different dimensions of the incentives that graduates have—including the various factors that affect their reservation wages—to provide labor services and to offer a specific number of hours of work per week and per year. The study shall differentiate between the incentives facing men and women separately, which determine the observed choices for the uses of time including the role of wages and job characteristics (stability, private/government, etc.), years of experience, family status, wage differentials by sex, informality, paid/nonpaid jobs, family/personal income, type of enterprise, marital status and other households, community environment, firms and sectoral characteristics.

2. The main object of study shall aim at providing a detailed taxonomy of the structure of the demand for Egyptian university graduates. The study will generally aim at identifying the incentives of different firms and enterprises to hire graduates and the factors that influence job openings hires. In addition, different elasticities shall be estimated to evaluate the firms' years of experience/skill graduates demand mix considering the prevailing relative wage, costs of production and market and non market institutional arrangements. Particular emphasis will be given to government and public sector demand for graduates that is influenced by both socioeconomic and political considerations. Finally, the study shall evaluate whether too much education is being produced relative to the needs of the different employers and whether there is a mismatch between the job characteristics and the graduates qualifications.

3. The study will examine the effect and role that grades have to play in the Egyptian university graduates' labor market by type and spatial allocation of university and by type of employment private/public/government, formal/informal, temporary/tenured/seasonal, etc. The study shall consider the effect of grades on job and career prospects when entering the labor market. It will also examine whether or not these effects are transitory and whether they change (positively/negatively) over time. The study, therefore, shall test and analyze the relation between grades and annual wages—per formal and per actual hours of work—at different time intervals (years) after graduation to capture the age impact of the university graduates' final grades.

4. The study shall examine the effect of minimum wage on the number of hours worked and on the structure of the wage distribution across sectors in Egypt focusing on university graduates. The study will determine the discrepancies in the length of the period needed for the youngest inexperienced vs. the older workers to decide exiting the minimum wage and identify graduates who would be most probably affected. The study shall extend the employment and wage effects of adopting the minimum wage policy on both the formal and informal sectors. This should provide the decision makers with guidelines for the design of an appropriate minimum wage policy that takes into consideration the profile of minimum wage employees and their productivity.

5. The study aims at measuring the intergenerational economic and social mobility among university graduates in Egypt by measuring the degree to which the graduates' circumstances at birth, family background and ties with and membership in different communities can affect their employment and wage level. In addition, the study will probe into how status in the social hierarchy system changes throughout the course of the graduates' career based on their own effort. The findings of the study will be employed to analyze the linkages between key socioeconomic variables including education attainment, person's skill and quality of performance, wage rate, job security and stability and equitable access to opportunities. Differences in opportunities—owing to the individual's own rank within the family/community, place of residence e. g., urban/rural, upper/lower and other relevant socioeconomic and demographic characteristics—will be identified.

6. Policy evaluation—based on the findings derived from the studies 1-5—to formulate policy informative guiding principles and design doable strategies for reducing unemployment and incidence of joblessness among Egyptian university graduates, increasing their earning potentials and employment opportunities and promising them better access to the labor markets both at the present time and in the future. The strategies shall be cast within an amenable format that can be easily implemented by the decision makers.

III. Data Sources

Graduate survey

Survey on the labor market outcomes of graduates from the higher education system in Egypt, data will be collected through a multistage stratified random sample. The strata are all the academic departments and the graduation year. There will be an oversampling for the private schools to deal with their absent in the past.

The questionnaire will study some demographic characteristics , the job situation of graduates, type of the job and duties characteristics, educational requirements for the job, the match between their studies and their graduate job (education-job match), past jobs (jobs history). They were also asked whether they had taken any postgraduate studies or any training programs (training purpose, type of training and the corresponding cost), and if they had any experience with mobility. To study the effect and role that grades have to play in the Egyptian university graduates' labor market, the questionnaire should have question about the cumulative grade that the graduate got on the final year of school. For some cases, when the GPA will be available, the graduate score will be converted to have the same grade

system. Specific section with detailed questions for graduates who were unemployed and some other questions about the communities surround the graduates. This survey will be conducted quarterly to capture the seasonality effect.

Establishment survey

The survey sample should represent all establishments in all economy sectors. Multistage stratified sample will be conducted. Some establishment characteristics will be taken into consideration such as the geographic region, public or private establishment and establishment size. Some specific sub surveys could be conducted: informal survey and micro-survey for enterprise that has less than 5 employees.

The questionnaire will study all things that encourage different establishments to hire graduates, all the socioeconomic and political considerations that are related to hiring new employees. Some establishments require special training programs, so there will be some questions about the purpose of the training program, the cost, and the places that provide such training. It is important also to ask about the factors that influence new job openings. There will be also questions about the annual wages, working days, formal and actual working hours, cost of production and full- and part-time workers who are paid a wage or salary and some other questions about the communities surround the establishments. The survey will be conducted at the end of the fiscal year.

To test the design and check its feasibility, a pilot study will be conducted for each of the two surveys.

IV. Expected Budget

Level

Estimate US \$

Overall Project Costs

Human Resources

- Lead Economist
- Economic Expert(S)
- Statistics Expert(s)
- Economic Researchers
- Statisticians
- Conducting the survey
- Software and Equipments
- Workshops and Eeminars

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