

THE POLITICAL ECONOMY OF FOOD PRICE POLICY

The political economy of food price policy in Egypt

FINDINGS

In response to the food crisis of 2007-08 the Egyptian government rapidly took steps to make sure bread continued to be available and made changes to trade policy in order to control its price

The government succeeded in lessening the impact of the food crisis on the poor, but this success came at a high fiscal cost

The Egyptian food system has been affected by both global food markets and domestic factors. During the recent global food price crisis, an estimated 30–40 percent of the price fluctuations in the global food market were transmitted to Egypt's food market. Domestically, government subsidies for agricultural inputs and a wide array of food products have put downward pressure on the prices of food staples and sometimes caused supply bottlenecks and created black markets. The existence of these subsidies for many foods has pushed retailers and wholesalers into non-subsidized food products such as fruits and vegetables. At the same time, fragmented markets, anticompetitive behaviour, and inefficiencies in the subsidy system have tended to put upward pressure on prices. These domestic factors contributed to the relatively low price transmission between the global and the domestic markets.

The importance of food policy

Declining real wages, increasing poverty, inefficiencies in the social safety net, and increasing media attention, placed pressure on the government to focus on food policy. Until early 2011 the governing regime was dominated by the president, backed by the National Democratic Party, implying little opportunity for other political parties to compete. Nonetheless, the increasing emergence of opposing parties and opinions represented a real threat. Other factors also forced the governing regime and the party to pay attention to food policy. In 2005 the process of choosing the president changed from national referendum to open elections, implying that there would be competition among political forces and hence a greater need to pay attention to social issues, especially given the ruling regime's desire for the president's son to succeed his father. In addition, the institutional setup governing domestic food trade was fragile. Until 2005, Egypt had no law prohibiting anti-competitive behaviour, and even when the law was enforced in 2006, it remained largely ineffective. As a result, anti-competitive behaviour prevailed.

Response to the food price crisis

The government's reactions to the food price crisis were deeply embedded in Egypt's socioeconomic context, where the food subsidy system centers on bread availability and prices. Given that a large number of poor people in Egypt are vulnerable to any increase in food prices, the government rapidly took steps to make bread available and control its price. It also changed the commodity mix in the ration card system and increased the number of ration card beneficiaries, to



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reduce the vulnerability of the poor to price increases. In addition, the government increased wages for public sector employees. It made changes to trade policies, reducing tariff rates on a number of commodities and banning the export of rice. These trade policies may have helped solve the bread problem, but their impact on rice exports and on the stability of domestic rice prices is questionable. The reduction of tariffs on food items had little effect because tariff levels were already generally low.



Fiscal costs

The government's policy changes affected the country's monetary, trade, and fiscal policies. The drawbacks of the policies on Egypt's fiscal stance and trade are likely to continue for a long time, especially after the January 25 Revolution and the accompanying social demands. This situation raises concerns about the macroeconomic sustainability of such policies for current and future governments. Food subsidies are relatively small compared with fuel subsidies, perhaps implying that the government expects to continue food subsidies for a while, especially given its focus on achieving social equity and lessening poverty. Hard budget constraints could, however, require reform, at least to prevent leakage and attain better income and geographic targeting. Various food policy stakeholders have been collaborating to reform food policy and address these concerns. Yet efforts to address food policy still suffer from a lack of coordination and little exchange of data and information. Widespread poverty and food insecurity and the absence of political leadership to drive national reform have resulted in a plethora of poorly coordinated programmes and projects. The debate on food policy issues has been left to technocrats with competing arguments.

Lack of political will

The political economy of food price policy in Egypt is highly complex. In spite of the creation of a few ministerial committees and political slogans announcing reforms, there is little movement toward reform. Because any serious economic reforms can have negative social and political repercussions, the political leadership has favored the status quo. Despite the high fiscal cost of the current policies, reform is difficult because a relatively large portion of the population is vulnerable to falling into poverty if food prices rise.

Lack of political will, weak coordination among stakeholders (including governmental agencies), proliferation of corruption, an inefficient pricing system, modest logistics, and a market heavily distorted by subsidies all increase the difficulty of reforming the food system. The combination of inefficient subsidy policies and wrong price signals has led to a huge amount of waste and leakage at all stages of the food value chain, resulting in food security problems and a low self-sufficiency rate.

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