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## Why Egypt's Economy Matters

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*Egypt's declining reserves and looming currency crisis could complicate the country's already tenuous political transition*



The economy was an important cause of Egyptian President Hosni Mubarak's overthrow. The Mubarak regime failed to deal with poverty (20 percent of the population), unemployment (more than 10 percent), lack of opportunity for a bulging youth cohort (90 percent of the unemployed were between 15-24), inflation (about 12 percent in total consumer prices, with food higher), and widespread corruption.

Since Mubarak's departure, in February, the Egyptian economy has significantly worsened, with the military leaders failing to address the burgeoning issues.

GDP growth, which had averaged about 5 percent per year at end of the last decade, is likely to be little more than 1 percent, if that, in the current fiscal year. There is a looming currency crisis, as Egypt's reserves have declined from \$36 billion at the beginning of the year to \$22 billion in October, with a projection of \$15 billion in January. Tourism, which traditionally accounts for one in seven jobs, is down by 35 percent. Rich Egyptians have taken their money elsewhere, and foreign direct investment has dried up as lawlessness and uncertainty have spooked business. The stock market index is down more than 40 percent.

Rates of poverty, inflation, and unemployment are higher today than they were at the time of Mubarak's downfall. Fully 44 percent of all Egyptians are categorized as extremely poor to near poor, according to some estimates. At a recent conference of leading Arab financial institutions, Joseph Torbey, chairman of World Union of Arab Banks, summarized the situation in Egypt by warning, "The Arab Spring will become a rough economic winter."

Historians will have to render a more considered view on the relative importance of political and economic issues in the Egyptian uprising. There is little question that, for many, the revolt stemmed from an autocratic executive, a weak legislature, a powerful security apparatus that trampled individual rights, the arrest and torture of regime opponents, and the dominance of one party rule and rigged elections. But, as I [have noted](#), the quest for new constitutional and political legitimacy is closely connected to a search for a new economic legitimacy.

The harsh realities of the post-revolt period have revealed the diversity of Egypt's polity, the conflicts between different groups, and the current lack of consensus on critical constitutional and policy questions: the distribution of power between governmental institutions, the balance between majority and minority rights, the impact of Sharia law, and the role of the military in government. In this period of transition, after the strong early showing at the polls of the Muslim Brotherhood and the more conservative Islamic Salafist party, it is simply not knowable how the conflicting forces in society will resolve these constitutional and political issues: secular vs. religious, military vs. civilian, Christians vs. Muslims, Muslim Brotherhood vs. Salafists, poor and unemployed vs. elites, old vs. young (45 million of Egypt's 85 million population are under 35).

These multiple fissures also create deep uncertainty about Egypt's economic future. Put most starkly, what is the mixture of policies to balance equity and efficiency? As to equity, how can Egypt moderate poverty, improve education, provide health care, create jobs, and have affordable food and energy -- all while reducing high governmental subsidies? As to efficiency, how can Egypt cut red tape and bureaucracy that stifles business so as to encourage investment and create a strong rate of economic growth?

Such a formidable series of tasks faces large obstacles. One is overcoming a backlash against free market ideas, such as privatization of state-owned entities, and against the private sector. Successive waves of "liberalizing" economic reforms are seen as favoring rich over poor, unjustly enriching a corrupt few and worsening unemployment as efficiencies were introduced. A second, structural obstacle is addressing the creaking statist elements of the command economy which provides subsidies, government jobs (many unnecessary), and hidden wealth to the military while driving up government budgets. Yet another barrier is the pervasive corruption under both free market and statist elements of the economy, which distorts and delegitimizes daily commercial activity in Egypt and poses extraordinary difficulties in creating a durable and consistent rule of law.

There is also the potential obstacle of Islamist economic views -- depending on which direction the Muslim Brotherhood (a broad coalition) chooses to go. These may favor equity over efficiency, even though Egypt needs economic growth to create at least 700,000 jobs a year just to keep its current high unemployment rate stable. (Turkey, cited as a possible model, was a strong secular state for much of the 20th century before the current, moderate Islamist government took over.)

As the Egyptian economy continues its nose-dive, it is questionable whether the United States and Europe -- or the IMF and the World Bank -- have either the will or the funds or the effectiveness to help stabilize the Egyptian economy through such measures as free trade agreements, investment guarantees, debt relief, soft loans, or direct grants.

The constitutional and political issues may take months if not years to resolve and clarify, and the deteriorating economic conditions seem likely for now to get worse. That, in turn, will exacerbate the serious societal and political conflicts underlying constitutional reform and new policy directions.

It has often been said that the future of a "new Arab world" will be shaped, perhaps significantly, by what happens in Egypt. Recognizing Egypt's diversity, we should all watch, with great care and attention, not just the struggle for a more representative, open and legitimate system of government--which has received the bulk of media attention -- but the struggle also for a more equitable and efficient economy. That goal may recede far into the future if the current economic conditions continue to get worse and if the conflicting political forces cannot agree on a course of action.

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