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The Importance of Providing U.S. Food Aid during Egypt's Ongoing Political Crisis

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The ongoing political crisis in Egypt has an economic foundation. For the past 18 years, the Egyptian economy has been “mostly unfree”—and among the least free in the Middle East and North Africa—in The Heritage Foundation’s *Index of Economic Freedom*. Lingering socialist economic policies adopted decades ago have discouraged investment, entrepreneurship, and job growth. Critically needed economic reforms have been delayed, derailed, or undercut by corruption, recent instability, and government indifference.

Long-standing economic weaknesses have contributed to economic stagnation and high unemployment. To ease discontent, the government has heavily subsidized a number of essential commodities, including food and fuel. Given the fact that Egypt relies heavily on imports for key commodities, foreign exchange reserves—already hit by lower tourism revenue during the recent instability—have declined sharply. If the government is forced to cut these subsidies abruptly, already disruptive political tensions will be augmented by food riots.

The U.S. can and should provide food assistance as a short-term solution. However, Egypt’s long-term economic stability requires fundamental economic

reforms to install a more market-oriented economy backed by the rule of law.

Before Democracy, Egyptians Want Greater Economic Freedom. It is still far from certain whether the prospective political transition will deliver much-needed political reforms that ordinary Egyptians have demanded. Yet the struggles in Egypt clearly highlight an important truth: Economic freedom matters.

A stagnant domestic economy—largely driven by poor government economic policy, unreliable rule of law, and corruption—has deprived many of Egypt’s 80 million citizens of hope for a better future. Prior to the Arab Spring, the government had begun implementing a series of much-delayed reforms, including reducing red tape, modernizing the tax system, and dismantling trade barriers. However, many of these reforms were not fully implemented due to either tiered execution or a lack of political commitment.

Over the past year, economic conditions in Egypt have gone from bad to worse. Mohamed Morsi’s brief tenure as president oversaw a dismal economic record. Gross domestic product (GDP) growth slowed down to below 1.5 percent, and the official unemployment rate has risen over 13 percent. Morsi’s government inflated public debt, pushing Egypt’s budget deficit to over 10 percent of GDP, and shrunk the country’s foreign-exchange reserves by more than half, barely enough to cover three months of imports. A major reason for the decline in reserves is the cost of extensive subsidies on food, fuel, and other imported commodities.

For many ordinary Egyptians, fixing the economy is their primary concern.¹ The continuing lack of economic reforms has fueled discontent since 2011.

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Younger Egyptians in particular have been exasperated about their country's outmoded economic system and discouraging reality. Youth unemployment (those between 18 and 29, making up about 25 percent of the population) is over 20 percent. Perceiving few chances for a better future, younger people in particular are increasingly supporting violent groups, including Islamic extremists.²

The Need for Short-Term U.S. Food Aid. Washington has both a political and humanitarian interest in preventing food shortages in Egypt. For decades, the Egyptian government has staved off discontent over the poor economy and high unemployment by heavily subsidizing commodities, including bread, which reportedly sells for less than 1 cent per loaf. Many Egyptians regard subsidies as one of the few tangible benefits received from their government. Considering unemployment and low per-capita income, even small increases in food prices can have significant impact on many Egyptian households.

Over 68 million Egyptians are estimated to receive monthly food rations at an annual cost of over \$4 billion.³ In fact, the government's reluctance to implement necessary changes to the subsidies has held up an International Monetary Fund loan that is considered essential to keep Egypt's economy afloat.⁴

Egypt may soon be unable to maintain its food and fuel subsidies or possibly even pay for imports. Interim Prime Minister Hazem el-Beblawy admitted that "the level of subsidies in Egypt is unsustainable, and the situation is critical."⁵ To provide perspective

on the seriousness of the situation, Egypt's oil minister stated in 2010 that the country imported 40 percent of its food and 60 percent of its wheat.⁶ Earlier this year, Egypt's wheat reserves were estimated at three months, and government harvest estimates were believed to be wildly optimistic.

In the past, attempts to eliminate subsidies on food have led to riots. However, the government may have little choice but to cut the subsidies. In short, the country could be hit by catastrophic food shortages and bread riots right when the military is trying to orchestrate a transition to civilian government.

American interests would be damaged by further economic and social chaos in Egypt, especially if that chaos impedes a transition to a civilian government. The U.S. should provide short-term food assistance to preclude shortages during the current transition. Time is of the essence, and the delay associated with traditional food aid restrictions on purchase and shipping could prove harmful.⁷ Therefore, the U.S. should waive these provisions. Moreover, U.S. food aid should not be provided in a manner that would create further disincentives to domestic production or entrench the unsustainable subsidies that have stressed the Egyptian budget.

Recommendations.

- **Reprogram some of America's assistance to short-term food aid.** Unlike military and economic assistance, food aid is not restricted by the prohibitions in law covering countries experiencing a coup d'état.⁸ Regardless of future decisions over security and economic assistance, America

1. Yasmine Saleh and Asma Alsharif, "Egypt's Mursi Defies Army As It Plots Future Without Him," Reuters, July 2, 2013, <http://www.reuters.com/article/2013/07/02/us-egypt-protests-idUSBRE95Q0NO20130702> (accessed July 15, 2013).

2. Jeffrey Fleishman and Ingy Hassieb, "Young Activists Again Feeling Squeezed Out of Egypt's Rebellion," *Los Angeles Times*, July 10, 2013, <http://www.latimes.com/news/nationworld/world/middleeast/la-fg-egypt-youth-20130711,0,2403022.story> (accessed July 15, 2013).

3. Louisa Loveluck, "Egypt's Gathering Economic Gloom Leaves Millions Facing Food Shortages," *The Guardian*, June 6, 2013, <http://www.guardian.co.uk/global-development/2013/jun/06/egypt-economic-gloom-food-shortages> (accessed July 15, 2013).

4. Ibid.

5. David D. Kirkpatrick, "Interim Premier in Egypt Could Cut Subsidies," *The New York Times*, July 9, 2013, <http://www.nytimes.com/2013/07/10/world/middleeast/egypt-interim-prime-minister.html> (accessed July 15, 2013).

6. Joe Weisenthal, "Egypt's Food Problem in a Nutshell," *Business Insider*, January 31, 2011, <http://www.businessinsider.com/egypts-food-problem-in-a-nutshell-2011-1#ixzz2YfljKk2> (accessed July 15, 2013).

7. See Bryan Riley and Brett D. Schaefer, "U.S. Food Aid Should Focus on Combating Hunger and Malnutrition in Poor Nations," Heritage Foundation *Issue Brief* No. 3910, April 15, 2013, <http://www.heritage.org/research/reports/2013/04/us-food-aid-should-focus-on-combating-hunger-and-malnutrition-in-poor-nations>.

8. Consolidated Appropriations Act of 2012, Public Law 112-74, Section 7008, "Coups D'état," <http://www.gpo.gov/fdsys/pkg/PLAW-112publ74/html/PLAW-112publ74.htm> (accessed July 15, 2013).

should prioritize shifting some budgeted assistance to food aid. The U.S. has an interest in preventing the transition from being undermined by bread riots. Timely provision of food assistance should lead Congress and the Administration to waive restrictions on purchase and shipment of food aid.

- **Resist efforts to replace Egyptian subsidies with subsidized U.S. food assistance.** Food assistance should be short term and leveraged to bolster domestic production by encouraging local production. The Egyptian government should be pressed to gradually reduce food and fuel subsidies to alleviate the financial burden associated with those policies.
- **Pressure the government to implement economic reforms.** Ultimately, Egypt's political stability and future prosperity depend on increasing per-capita incomes and spurring job growth. These goals require economic reform.

Time to Fix the Economy. Egypt's economic woes have contributed to the current instability by undermining opportunities, which exacerbates unemployment, particularly among the youth, who have proven susceptible to radical ideologies. To facilitate the nascent political transition, the U.S. should provide short-term food assistance. A critical next step toward fixing the economy is to reduce the burden on government finances posed by large subsidies that distort market mechanisms and perpetuate dependency on government.

Finally, establishing long-term political stability in Egypt will remain elusive unless the country's economy measurably improves, which requires serious market-oriented economic reforms to encourage private investment and facilitate job creation.

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