

Egypt reintroduces food vouchers as poverty worsens

Paul Mitchell
5 May 2004

The Egyptian government reintroduced vouchers for basic foodstuffs on May 1 following dramatic increases in prices over the last two years. The cost of living has risen by up to 20 percent.

The latest price rises have resulted from an unprecedented increase in the price of basic commodities on the global market and the decision three years ago by the Egyptian government to float the Egyptian pound (EGP). Since then the currency has lost half its value—from 1 EGP = 29 US cents to 1 EGP = 15 US cents. Instead of stimulating exports as the government and its advisers claimed would happen, the price of imports has soared.

Minister of Finance Medhat Hassanein recently told the Shura Council, Egypt's Upper House, that the 2004-2005 budget deficit will be about EGP 52 billion (\$US8.4 billion) increasing from about one percent of gross domestic product (GDP) in 1997 to about 10 percent. The public debt stands at EGP 277 billion (\$US44.6 billion).

There have been food queues and street protests for the first time in many years and newspapers have attacked the government for the failure of its economic plans.

An Egyptian businessman told the Israeli newspaper *Haaretz*, "We are in a situation in which we are talking about pulling out of poverty, improving the economic situation and increasing employment, while reality does not recognise these goals. After so many years we are being forced to return to the food vouchers and check who is poor. While the whole world is progressing, we are regressing."

Although government figures claim that poverty in Egypt has dropped from 20 percent of the population to 17 percent the businessman continued, "The problem is not in the reports or the statistics published by the government. Even if we assume that all the numbers are correct and verified, which is doubtful, the feeling on the street is what counts, and the street cries out that there is poverty. This should trouble the Egyptian government and anyone who is worried about the stability of the state."

More than 50 years after the overthrow of the old feudal regime in Egypt, the reintroduction of vouchers illustrates the inability of the national bourgeoisie and its military backers to resolve the fundamental social questions confronting the working class and peasantry. It is also an indictment of 15 years of structural adjustment programmes imposed by the World Bank and International Monetary Fund. These financial institutions claimed that liberalisation of the economy and removal of subsidies would lead to a productive and profitable Egyptian economy fulfilling the

"overarching objective" of the World Bank's Strategy for Egypt "to reduce poverty and unemployment." Now they blame the "adverse shifts in the external environment as well as a rapid growth of domestic credit" for blowing their plans off course and raising "some concern about a possible increase in poverty incidence." (It should be noted that a presentation made at the World Bank Institute in December 2002 said that the "reforms undertaken in much of the [North Africa / Middle East] region during the 1990's reduced fiscal costs but [that] the impact on the poor is unknown.")

The origins of the subsidy system lie in the limited programme of economic and social reform carried out by Colonel Gamal Abdul Nasser after World War II.

Following the war Egypt experienced a prolonged period of unrest that affected all social classes. The working class faced the possibility of taking power. The Egyptian bourgeoisie resented continuing British and French imperialist domination despite formal independence, the army was humiliated by its defeat by the new state of Israel in 1948 and land reform became a vital question for the peasantry.

As the crisis developed and in order to pre-empt revolution, the Free Officers movement in the Egyptian Army overthrew the British puppet, King Farouk, in 1952 using the banner of Egyptian nationalism. The Revolutionary Command Council installed General Muhammed Naguib as president, whom Nasser ousted two years later.

Nasser promoted pan-Arab nationalism as an alternative to international socialism and became leader of the "non-aligned" movement, playing off the Soviet Union against the United States. In Egypt, Nasser portrayed himself as an Arab socialist and formed the Arab Socialist Union in 1962 into which the various communist factions liquidated themselves. Egypt became the model for many other national bourgeois regimes that came to power in the post-war period.

The Egyptian Stalinist Democratic Movement for National Liberation played a crucial role in these events. Adhering to Stalin's "two stage" theory, the communist party insisted that the class struggle in the underdeveloped countries be subordinated to a popular and national front with the bourgeoisie. Socialism could only come in the distant future after the establishment of an Egyptian capitalist democracy.

The abolition of the monarchy, distribution of land to peasants, secularism, anti-imperialism and nationalisation of the Suez Canal

were extremely popular measures that helped transform Egypt.

Nasser nationalised industries and financial institutions to provide the basic infrastructure required by private capital, introduced a state monopoly of foreign trade and launched progressive social policies to appease the masses. Other factors including substantial aid from the Soviet Union, high oil prices, transfers from Egyptian workers living abroad and earnings from the Suez Canal also helped the economy grow at a very rapid pace. By the mid 1960s, real wages had nearly doubled and growth averaged four percent a year despite a doubling of the population to 37 million people.

Egypt developed one of the most comprehensive systems of subsidy in the world. The government guaranteed each person a fixed allowance of rice, oil, sugar, tea and soap using a ration card system. State-run cooperative stores also sold food items such as pasta, eggs, oil, cheese, beans, sugar and tea at approximately 80 percent below market prices. Bread was available at subsidised prices in unlimited quantities to all Egyptians.

Recounting those days in the 1960s Hagga Fawzia told the *Egyptian Gazette* in April this year, “As soon as my first child was born, we registered him as one of the people entitled to goods listed on the card.” As her family grew to seven children Fawzia continued, “Each of my children carried his favourite item. One took the sugar, another the rice and a third struggled with the cooking oil. I used to make them sweets every time we got the sugar on the ration cards.”

Engineer Zeinab Mohamed also told the *Gazette*, “I will always remember the top quality goods we used to buy with the ration card before my family emigrated to Germany in 1967 because of the war [with Israel]. Nowadays the goods available at state-run cooperative retail outlets are not as good as nearly 40 years ago.”

According to the United Nations, “Until the early 1970s state-sponsored economic policies were the cornerstone of Egypt’s development strategy, with an emphasis on social welfare and state subsidisation of basic needs [that] lead to improvements in living conditions for the majority of Egyptians in the 1960s and the 1970s.” (UN 1995. Impact of selected macroeconomic and social policies on poverty: The case of Egypt, Jordan and the Republic of Yemen, page 14. E/ESCWA/ED/1995/6. New York).

However, Egypt was not insulated from the world economy and the end of the post-war boom hit the country hard as did the defeat in the war with Israel in 1967. As financial losses mounted, Nasser started to reverse his economic policies. In response to rioting and civil unrest, Nasser relaxed controls on the private sector and monopoly of foreign trade.

When Nasser died in 1970, Anwar Sadat, another Free Officers movement member, succeeded him. Despite accelerating attacks on social welfare and the removal of some subsidies that provoked food riots, the Food and Agricultural Organisation of the United Nations concluded that “largely as a result of food subsidy policies ... the percentage of urban poor, estimated to be approximately 37 percent of the population in 1974/75, declined to about 23 percent in 1981/82, and the decline was even more pronounced in the rural areas.” (The State of Food and Agriculture Report, FAO Agriculture Series Number 30, Rome, 1997).

An important reason for this decline were the subsidies given to

agricultural materials such as fertilisers, pesticides, seeds and animal feeds, started in the early 1970s. During this period, the price to the consumer of Egyptian wheat was about half what it cost the government and imported wheat was one-third of the international cost. Similar policies applied to sugar, wheat flour and beans.

After the disastrous defeat by Israel in 1973, Sadat appealed directly to the US for substantial aid in return for his signature on the Camp David Accords in 1979 recognising Israel, but this failed to stop the economic decline.

Following Sadat’s assassination in 1981, Vice President Hosni Mubarak succeeded him. GDP shrank from an average of \$US615 in 1980-86 to \$US588 by the end of the decade. Inflation was 18.5 percent, the foreign debt was more than \$US50 billion and the public debt was \$US31 billion.

To obtain further loans Egypt adopted a series of Economic Reform and Structural Adjustment Programmes from 1991. The collapse of the Soviet Union confirmed the impossibility of pursuing autarkic national development in a world economy.

A key aspect of the adjustment programmes was the reduction in food subsidies that were seen as distorting the market value of commodities. The average subsidy dropped from about 110 EGP during 1980-89 to less than half that level—42 EGP—by 1993. Only the subsidies on wheat, oil and oil products and sugar remained. Since then, the cost to the consumer of most subsidised commodities has gradually increased, with the price for flour and bread approaching their market cost.

With its announcement for May 1 that food vouchers will be available for 25 staple foods, the government’s policy of abolishing subsidies has been torpedoed. Although the vouchers will only be available to those who claimed them in 1989 and renewed their eligibility every year, it is a sign of the poverty prevailing in Egypt that the government reckons 88 percent of the population are entitled to them.

The vouchers will not be available to anyone who earns more than EGP 2,000 (\$US320), owns more than 11 acres of land or has more than one car. Naturally it will not include the one percent of the population who own most of Egypt’s wealth and who have been the greatest beneficiaries of the adjustment programmes.



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