

Structural Adjustment Requires Tough Political Decisions

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The Egyptian government is keen to begin a structural reform program in accordance with the advice of both the World Bank and the International Monetary Fund (IMF). This structural reform program, one of the pre-conditions for receiving future IMF and World Bank assistance, necessarily implies that the Egyptian economy will be transformed from its current resource allocation structure to a system where prices play a much more effective role in the allocation process.

Structural adjustment will not come easily for a country like Egypt where resource allocation is still to an extensive degree dependent on the behavior of the bureaucratic system.

Structural adjustment implies that a series of subsidies will have to be curtailed or abolished altogether to get the price system to correctly allocate resources in the economy. For example, electricity and energy prices under a structural adjustment program will have to begin to reflect world market prices after a duration agreed upon with both the World Bank and the IMF.

Adjustments in the prices of key inputs of this sort imply that prices for virtually everything from packaged food to transportation will be affected. Under a structural adjustment program of this kind, the Egyptian government will also obviously have to address the wage issue for the entire civil service. For other individuals working outside government, adjustments of this sort simply mean lower incomes.

The Egyptian government has seen obvious signs (e.g. rising unemployment) of the country's economic failure. This failure has one simple message: the state needs to reform itself and the only way to achieve this is through structural adjustment.

Government, though, which acts as the main setter of macroeconomic policy, cannot substitute for political dialogue and choice, which are inherently linked to structural adjustment. There is no best way to decide how the gains and losses from structural adjustment should be allocated and rearranged. There is an almost infinite range of solutions. And the fairest among them — the one that will generate the broadest commitment to active adjustment — is discoverable only through the messy process of political debate and choice.

The political choices that accompany structural adjustment must pervade economic policy. They are embedded in issues of protection for state enterprises, regulation of the private sector, privatization, liquidation and how to combat both inflation and unemployment.

But the ethos of economic management often relegates these political choices to an insignificant place in its debates. By describing the economy in mechanical terms, policy makers can promise revival through steps like changes in monetary and fiscal policies as if these changes were distinct and only loosely linked to the prosperity of the average Egyptian household.

Egyptians, like most people, now reject or resist painful decisions that they have had no part in making. Thus, structural adjustment brings to the forefront a fundamental choice. The choice is between developing a political system that stymies economic and social progress and developing one that promotes it.

A return to the 'open door' policy to generate short-term growth in the economy will, for example, bring into the open once again the danger that government policies would enrich some people while impoverishing others.

Facing the political dimension implied by the return to the 'open door' would require choices about how the benefits and costs of such a policy should be allocated. As another example, privatization of a number of state firms is now warranted based on the fact that many public companies are producing commodities at negative value added and losing millions of pounds every year.

But privatization is obviously rejected by state employees working in such companies that have much to lose (e.g. their jobs) if such a policy were to be carried out. Workers in declining industries now block change and they must be compensated in a way which will allow them to accept structural adjustment.

For structural adjustment to move forward Egypt needs a political revitalization as badly as it needs economic reform. But there is no simple route to achieve this. Much will depend on the ability of Egypt's economists and politicians to convince labor unions

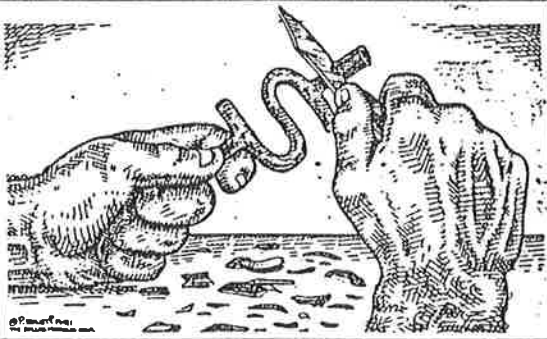
We must devote our efforts to helping our citizens perceive the consequence of public choices about economic change and to hold accountable those who will act against the change that must take place.

Change will require the creation of a new type of dynamism in our public industries and our state institutions that are entrusted with assisting private-sector growth and development. For this dynamism to be created we will need a national bargaining arena for allocating the burdens and benefits of major adjustment strategies.

Such an arena would enable the nation to achieve a broad-based consensus about adjustment. For example, it would enable government, business, and labor to fashion explicit agreements to restructure Egyptian industry.

Protectionist measures and bailouts to preserve the status quo would have to come to an end. Companies seeking financial support or import protection would enter restructuring agreements to ensure that these measures would be temporary and would serve to benefit the overall economy. By the same token, labor and management facing industrial decline would be in a position to negotiate a package of public adjustment assistance designed explicitly to retrain their work force and shift other resources to more profitable uses.

The answer for us is no longer national planning or central planning, if we take these terms to mean the centralized drafting of detailed blueprints for future economic management. We have tried this sort of planning



before and it has failed. We have had managerial planning for decades within our holding companies; this too has failed. Managerial planning depends on stability, predictability, and control.

Egypt's past economic remedies are now dangerously obsolete (e.g. guaranteed jobs for graduates to hide unemployment and subsidies to curtail inflation) since the country is now caught up in the unpredictable dynamics of international competition.

Egypt is failing in the export game because local institutions, especially public-sector firms, cannot understand the international export market. Instead, we need institutions that are versatile as well as flexible. Enterprises need to be less concerned with making 'correct' decisions than with making correctable ones, less obsessed with avoiding error than with detecting and correcting for error, more devoted to encouraging new enterprises than to stabilizing the environment for old enterprises.

If we are to become a truly adaptable society, our political choices need to be flexible and experimental. They must be compatible with developing approaches to emerging problems and opportunities, which means we have to find a way for getting Egyptians to not only accept structural adjustment but to demand it.

Change and adaptability must be built into our public and private institutions, rigid planning must be avoided. But yet again, many Egyptians are resisting change, resorting instead to strategies of preservation.

We now struggle to avoid sacrifices and burdens we believe others are successfully evading; for example, many pay no taxes because they are convinced that others are not correctly reporting their real incomes. And we seek to gain personal benefits at the expense of society at large, benefits like those we suspect others are already obtaining; for example, a person rigs his electricity meter because he suspects his neighbor is doing the same thing.

Thus, we justify to ourselves behavior damaging to the national economy in a way very similar to that of some civil servants: 'They pretend to pay us and we pretend to work.' We have lost our work ethic.

For Egypt to accept structural adjustment it must make considerable social and political strides.