Whims of the Past Plague Egypt's Reform Proposals

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Special to the Middle East Times

LAST WEEK I discussed the Egyptian government's proposals for industrial reform submitted to the World Bank and the International Monetary Fund (IMF). This week's article will focus exclusively on what I consider to be the negative or detrimental aspects of these proposals and their major weaknesses.

The proposed reforms are meant to meet the need to give greater autonomy to state enterprise management with the objective of separating government ownership from control. Unfortunately, this is a tune that the government has tried to play at least five times over the last two and a half decades, with no success. Virtually every cabinet since 1969 has tried to launch public enterprise reform programs that envisioned separating ownership from management.

I have come to believe that any owner of a company, government or otherwise, will never regard a separation of ownership from control as in his best interest, simply because ownership means control and control means power. Is the government, or the Ministry of Industry, actually serious about reducing its power by minimizing its control over state enterprises? If this is the case and the government is willing to forgo its power, then why not divest?

This discussion leads us straight back to the privatization debate, and serious questions exist about the government's willingness to privatize 100 percent state-owned enterprises. The government has been reluctant to privatize such enterprises even when they are obviously inefficient and a drain on its budget. For Ministry of Industry officials, privatization still remains taboo as far as their group of 117 enterprises is concerned, regardless of their losses or their level of inefficiency.

With regard to the government's proposed new type of holding company, which would be designed to reflect the structure of the Italian Institute per la Rucostruzione Industriale (IRI), it should be noted that Egypt has tried to reform its holding companies five times over the last two and a half decades, with little success in every case. Granting management autonomy was the objective in every previous attempt at restructuring, yet again and again, state holding companies reverted to monolithic bureaucratic organizations which, later on, became the main obstacle preventing state enterprises from turning commercial.

In addition, it should be recalled that until the mid-1970s public enterprises were super-

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vised by state organizations which reported to the Ministry of Industry, very much like the current holding companies. In the mid-1970s these intermediate organizations were eliminated and public enterprises started reporting directly to the Minister of Industry with the purpose of maximizing state control.

However, state control was never diminished, and the central government, through the Ministry of Industry and its holding companies, continued to enforce a whole range of pricing guidelines, product mix guidelines and enforced salary and bonus mechanisms. Will a new type of holding company let managers make decisions in these areas without interference? I doubt it.

In any case, Italy's IRI is also likely to be a bad example for Egypt to follow. IRI was created in 1933, and by 1982 it controlled roughly 1,000 state enterprises. Even though it is now trying to privatize many of these companies, its successes are in the sale of physical assets such as buildings and the like rather than in the divestiture of full enterprises. More importantly, IRI has been focusing its divestiture efforts through sales on the Milan stock exchange, which is obviously not easily duplicated in a country like Egypt.

If we are truly attempting to copy the IRI experience, then capital market development must be directly linked with public enterprise reform. There is no mention of capital market development approaches anywhere in the government's structural adjustment program for the industrial sector. Egypt's stock market at present can only be described as inactive, because only 25 companies seem to have shares that are traded with any regularity even though several hundred firms are registered on the Cairo stock exchange.

In addition, there is also the issue of the negative list. Why have a negative list at all? Why should there be areas not open for additional private sector investment if the government is against any form of closures, public or private, and a negative list is needed to implement a protectionist policy toward particular investments and investors?

The simple rule of economics is survival of the fittest based on open market entrance and exit. If I think I can make a profit by producing a commodity, even though it is in surplus in the local marketplace, why shouldn't I be given a chance? If the answer is because this is likely to lead to a closure of a competing enterprise, well so be it.

Maybe that enterprise has lost track of market demand or has failed to make quality products. Should we let it continue to survive guaranteeing it a market share from here to eternity and preventing other, possibly better producers from entering the marketplace?

I have always been against the logic of preventing entrance because of abundant capacity. This kind of logic is simply anti-free market and is likely to encourage inefficiency. More importantly, it does not support the simple rule of free market behavior: survival of the fittest, or survival of those offering higher-quality products at lower prices.

In any case, it would seem that once again, state enterprise reform proposals seem to contain little that is really new. In my opinion, the proposed restructuring scenario has more important negative aspects than positive ones. We should always refer back to history when it comes to state enterprise reform, and sadly, we realize that most of the public industry restructuring objectives posed by the government can only be described as whims of the past.