

THESE are two basic types of economic systems in existence; those in which people have confidence and those in which people have lost faith. By every measure, Egypt, along with many underdeveloped countries, fits squarely into the second category. My proposition is that one of the main characteristics of underdevelopment is a basic distrust by the nationals of a country for the economic system of which they are part.

Why is trust a basic condition for development? The answer, I believe, lies in the concept of what is in essence a self-fulfilling prophecy: if the majority of the people believe that an economic system can work, it will. On the other hand, if the majority of the people do not believe in an economic system, it will fail to grow or prosper.

Take Egypt as an example. How many people, young or old, rich or poor, in major cities or in rural areas, believe in the country's economic system? Not many, to say the least. Does this lack of trust lead Egyptians to keep the bulk of their savings inside or outside of the country? If the answer to this question is that the majority prefer to have their savings in a currency other than their own and to hold the larger portion of such sums abroad, then there are obvious repercussions on investment. Real investment levels off or falls year after year primarily because the level of savings is not growing under such conditions. As real investment falls, the job market fails to expand and income generation begins to slow further contributing to the decrease in savings. Thus, a cycle is created which does not further either growth or prosperity.

The confidence gap in Egypt's economic system is an old phenomenon that probably goes back to the 1960s. But one crucial question must be asked: Has confidence in the economic system increased or decreased during the last few years? Ultimately, the answer by anyone who knows Egypt well will have to be that confidence is today at one of its lowest levels ever.

Why? There are a number of factors which have led to this foremost among them being disasters such as those caused by the so-called Islamic finance corporations (*awfi el amwal* in Arabic), the level of nominal interest rates, exchange rate policy and simply the lack of cohesion between economic policies.

Let's begin with the Islamic finance corporations, in which over E£3 billion were invested. The way in which these firms developed and the method by which they were dismantled left hundreds of thousands of people out in the cold. Their entire savings, or at least the bulk of their wealth, remain unaccounted for to this day or have been irrevocably lost. Is it any wonder, then, that the level of workers' remittances has leveled off and even decreased in real terms year after year? Whether the growth of the Islamic banks decreased in real terms year after year?

corporations can be blamed on the government or on those who invested their money in average Egyptian needs to keep up with the Mercedes, or a similar import, today, use a car will also rise. Thus you can actually buy a Mercedes, or a similar import, today, use it for two years and still expect to sell it at a profit in real terms.

As mentioned previously, gold is also a major store of value for Egyptians to replace negative returns from pound savings accounts. People start hoarding when they of inflation in the Egyptian economy. This means that if interest earned is 13 percent while inflation in Egypt is 25 percent in one year, the person holding the E£10,000 has lost 12 percent of his savings in terms of purchasing power.

How are smart Egyptians addressing this problem? What they are not doing is buying Egyptian government bonds in either local or foreign currency with higher interest rates, again because of their lack of confidence. What they are doing is converting large sums of pounds into dollars, expecting the value of the dollar to rise so as to increase their purchasing power capacity.

People are demanding more dollars and chasing power capacity.

People are demanding more dollars and depending on foreign currency as a store of value while the Egyptian pound is slowly losing not only purchasing power but confidence as well. Even stores concerning the International Monetary Fund (IMF) that every Egyptian can read in any newspaper encourage the IMF exchange rate requirement for a second standby agreement, which in theory is supposed to be secret, is known to every currency dealer, businessman, and to the majority of households.

Thus, if everyone expects the government to devalue the pound relative to the dollar, who wants to keep large amounts of pounds and accept an automatic loss?

In addition, there is the issue of hoarding, which has developed as a result of normal interest rates. If you lose your money when you keep it in a bank, then it makes sense to put your money elsewhere. Thus, most Egyptians use part of their savings to purchase apartments, imported cars and, in many cases, gold. Why are there over a million closed apartments in Cairo and a proportional number in Alexandria? Simply because people are buying them as an investment rather than for living their money in savings accounts.

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The most successful economies in the world have managed to turn the self-fulfilling prophecy of economic systems to their advantage. French and Americans believe that their economic systems work, and thus they do operate efficiently. Confidence in their systems made them what they are.

The lack of confidence in the Egyptian system, meanwhile, has brought its people the economic condition in which they find themselves today, very far from prosperity!