Budget Deficits Drive Egypt Toward Privatization

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AS THE Egyptian government proceeds with its various privatization programs, the adversaries of public-sector divestiture seem to be gaining in numbers. Most of their arguments focus on the essential role the public sector plays in the process of maintaining social equality.

These adversaries emphasize that the public sector has always been the cornerstone of the widespread subsidies system that supports the majority of the poor. And, sadly enough, many are pointing to the government's privatization programs as if they represented an abandonment of the state's commitment to helping the needy.

Yet there is another factor which one must take into account in considering the rationale for privatization and its relationship to the state subsidies system: the budget deficit. According to various estimates by institutions such as the International Monetary Fund (IMF), the government of Egypt ran up a budget deficit of E£9 billion in 1986-87 and managed to increase it to E£14 billion in 1987-88.

Since gross domestic product (GDP) during those two fiscal years amounted to E£44.8 billion and E£53.3 billion respectively, this implies that the state deficit was equal to approximately 20 percent of national output in 1986-87 and 26 percent in 1987-88.

Obviously, the state deficit has reached horrifying proportions, especially when compared to GDP, and it is now directly responsible for two things: Egypt's mushrooming debt burden and, to a certain extent, the current inflationary pressures on the economy.

More importantly, the government can no longer continue to support the public sector as it did in the past when it had a financial surplus. The government is now heavily in debt and can invest very little in additional public-sector activity. At the same time, it is having a difficult time finding the foreign exchange and the local currency necessary to keep the majority of state enterprises going.

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A Point Of View

At present, the government is confronted with the urgent need to develop a policy agenda through which the deficit can be offset to prevent further accumulation of debt and to minimize inflationary pressures.

One of the policies that the government has turned to is privatization, which, if implemented, can quickly generate substantial state revenues and at the same time lead to a significant reduction in expenditures.

Thus, the pressure to privatize is simply coming from the budget deficit. True, the government can reduce the budget deficit by means other than privatization, such as cutting subsidies on items ranging from basic consumer goods to consumer durables, which, in fact, it has already started doing. Recent increases in the prices of sugar, gasoline and a host of consumer durables reflect this trend.

But the government can turn to privatization as an option to resolve its deficit problem without having to resort to major price restructuring, which can affect the poor. Privatization does not necessarily imply a diminished government commitment to supporting the poor.

The privatization of enterprises producing commodities that the poor do not buy will not affect them. For example, the sale of the Al Ahram Beer Company to the private sector will not leave the poor in an awkward position because they will hardly ever buy its products.

But wait, isn't Al Ahram Beer one of the public sector's most profitable ventures? Yes, and it is exactly these kinds of enterprises that, if sold to the private sector, will bring the state substantial revenues and will also offset serious local currency and foreign exchange expenditures.

Which deficit-cutting measure is better: surrendering a public-sector beer factory to the private sector or raising the price of sugar and other essential commodities? Which of these would affect the needy most?

In any case, the government is not planning to sell its beer company, its chocolate or corn flakes factories, or anything else in the industrial sector that is fully owned by the state. It is, instead, selling off a few chicken farms here and there and a few joint-venture industrial enterprises which, in my opinion, are basically peripheral entities.

But according to Prime Minister Atif Sidki, the sale of these peripheral enterprises will generate over E£4 billion in revenues for the state over the next two years. If the prime minister's estimate proves to be correct, then the revenues the government could collect by privatizing 100 percent state-owned enterprises producing nonessential goods such as beer and chocolate are likely to be huge. And it would greatly contribute to the efforts to redress the budget situation.

In essence, I believe, the government has two choices in addressing the state budget deficit. The first choice is simply to lower direct subsidies in order to get immediate budget relief, thus transferring the burden of the debt to consumers, rich and poor alike. The second is to dump all of those government-owned enterprises which produce various nonessential consumer goods and are a financial drain into the hands of the private sector.

It seems that the government, in fact, prefers to do a bit of both, rather than focusing on one option. It is doing some peripheral privatization, and at the same time raising the prices of a number of basic consumer goods and services in its effort to reduce the deficit.

In any case, whatever road the government follows, the pressure to raise prices for a select group of subsidized goods and services comes from the budget deficit. In addition, the government's expanding support of the private sector and its move toward privatization also probably originated from its fears that the deficit had simply run wild.

One hopes that whatever method the government uses will actually result in a move toward a balanced budget. Otherwise, the country will slip further into the mire of debt and inflation.