

WORLD BANK
COMPARATIVE STUDIES |

The Political Economy of Agricultural Pricing Policy

Trade, Exchange Rate, and Agricultural Pricing Policies in Egypt

Volume I The Country Study

Jean-Jacques Dethier



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The World Bank
Washington, D.C.

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1818 H Street, N.W.
Washington, D.C. 20433

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First printing April 1989

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The series The Political Economy of Agricultural Pricing Policy, under the direction of Anne O. Krueger, Maurice Schiff, and Alberto Valdés, was undertaken to examine the reasons underlying pricing policy, to quantify the systematic and extensive intervention of developing countries in the pricing of agricultural commodities during 1960-85, and to understand the effects of such intervention over time. Each of the eighteen country studies uses a common methodology to measure the effect of sectoral and economywide price intervention on agricultural incentives and food prices, as well as their effects on output, consumption, trade, intersectoral transfers, government budgets, and income distribution. The political and economic forces behind price intervention are analyzed, as are the efforts at reform of pricing policy and their consequences.

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Library of Congress Cataloging-in-Publication Data

Dethier, Jean-Jacques, 1952-

Trade, exchange rate, and agricultural pricing policies in Egypt /
Jean-Jacques Dethier.

p. cm.

Bibliography: p.

Contents: v. 1. The country study -- v. 2. Appendixes, data and
methodology.

ISBN 0-8213-1222-7 (v. 1). -- ISBN 0-8213-1223-5 (v. 2)

1. Agricultural prices--Government policy--Egypt. 2. Food prices--
Government policy--Egypt. 3. Egypt--Commercial policy. 4. Foreign
exchange problem--Egypt. I. Title.

HD2123.Z775D48 1989

338.1'862--dc20

89-9057
CIP

ABSTRACT

This study examines twenty-five years of government intervention in agricultural price policy in Egypt. The study focuses on Egypt's five main crops: cotton, rice, wheat, maize, and sugarcane. It shows that, during the period 1960-85, the price regime has discriminated strongly against agriculture. The net effect of all types of intervention, both sectoral and economy-wide, was to reduce the prices received by producers of those five crops. Urban consumers, on the other hand, and particularly those in the lowest income groups, benefited from this intervention.

The negative effects of intervention on the prices received by agricultural producers were particularly strong between 1960 and 1973. During that period, the government of Egypt^t was determined to transfer resources out of agriculture as a way of helping to pay for industrialization and military expenditures. Agricultural exports as a share of all exports fell rapidly from the 80 percent figure chalked up in 1960. Despite the reduced importance of agricultural exports, though, Egypt still dominates the world market for extra long staple cotton.

After 1973, when world prices of farm commodities surged upward and the country became a net importer of food, the Egyptian government became increasingly concerned with stabilizing domestic prices and adopted a more flexible agricultural price policy. Implicit taxation of agricultural producers through exchange rate and trade policies fell from an average of 29 percent during the 1960-72 period to an average 12 percent between 1973 and 1980. Meanwhile, agricultural input subsidies (especially for fertilizer) increased sharply.

Notwithstanding this more benign approach to agricultural producer prices, government intervention has, on balance, largely favored consumers. Consumer subsidies during the 1973-85 period boosted incomes of urban and landless rural workers but had a sharply negative impact on the macroeconomy.

The study reports the effects of agricultural price intervention on output, consumption, income levels, the government's budget and foreign exchange earnings.

ACKNOWLEDGMENTS

This report has gained from the contribution of several people to whom I am most grateful. First and foremost, I would like to thank the project directors, Anne O. Krueger, Maurice Schiff, and Alberto Valdes, for their encouragements and constructive criticism. I am also grateful for the helpful comments made by several of my colleagues, authors of other country studies, during the course of this research project.

I have received extremely valuable comments from several people who have been most forthcoming in sharing with me their great knowledge of Egyptian agriculture. Joachim von Braun has provided me liberally with data from his IFPRI work and has commented on an earlier draft of this report. Bent Hansen has kindly provided me with exchange rate data and has made detailed comments on an earlier draft, which have improved the present version. G. Edward Schuh, at various stages of this project, has given me very insightful comments that were incorporated in this report. Grant Scobie, to whom I owe my participation in this research project, has made a significant contribution to chapters 7 through 9 and has given me very detailed and useful comments on an earlier draft. Finally, in Cairo, Hassan Khedr has provided me with data and commented on an earlier draft.

Research assistance was provided by Kathy Funk. She has made a contribution at all stages of the project, searching for data and sources, producing the tables, and checking and cross-checking the figures. Appendices N and O have been written jointly. This study would not have been possible without her collaboration. Phillip Sawicki and Paul Wolman have edited the final manuscript with great skills. Celina Bermudez, the project administrator, and Anne Muhtasib have coordinated the production of this report with extreme efficiency and kindness.

None of these persons are responsible for possible remaining errors, which are solely mine.

Washington, D.C., December 1988

INTRODUCTION

This report is the final product of the Egypt case study in the Comparative Study of the Political Economy of Agricultural Pricing Policies in Developing Countries, a research project (RPO 673-64) directed by Anne O. Krueger, Maurice Schiff, and Alberto Valdes and financed by the World Bank. The project, which uses a common methodology to analyze eighteen countries, was initiated in May 1985.

The Egypt case study examines twenty-five years of pricing policies in agriculture, covering the period 1960-85. During this period, the price regime has discriminated strongly against agriculture. The study proceeds mostly by analyzing the objectives and implications of government intervention on five major crops, cotton, rice, wheat, maize, and sugarcane.

The study is organized in three parts. The first part of the study examines the economic history of price intervention, both at the sectoral and at the economy-wide level, affecting agriculture. After an introductory essay (chapter 1) outlining political, macroeconomic, and sectoral developments, the objectives and instruments of agricultural policy during the period 1960-85 are examined (chapter 2). Then the study examines the incidence of intervention on relative prices and values added (chapter 3).

The second part of the study analyzes the effects of price

intervention on agricultural output (chapter 4), on rural and urban incomes (chapter 5), on consumption (chapter 6), on foreign exchange earnings (chapter 7), on the government budget (chapter 8), and on resource flows in and out of agriculture (chapter 9).

The third part of the study examines the determinants of agricultural pricing policies. The influence of world prices and the relationship between government intervention and price variability are analyzed (chapter 10). In the conclusions, a political-economic interpretation of twenty-five years of price interventions is given, and recent reform attempts are examined (chapter 11). Finally, background material such as time series data, calculations, and more detailed description of economic policies and institutions are given in the appendices.

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Chapter 1

ORIGINS OF AGRICULTURAL PRICING POLICIES IN EGYPT

During the twenty five year period covered by this study, major political and economic changes have taken place in Egypt. Policies, institutions and ideology have shaped economic trends. Agricultural pricing policies must be understood in the broad context of these structural changes which are described in this first chapter.

ECONOMIC AND POLITICAL EVOLUTION, 1960-85

The geography and demography of Egypt delineate its basic economic problem. Although the total area of the country is 386,000 square miles (a little over 1 million square kilometers), less than 4 percent of this land is habitable or even usable. In fact, without the Nile, which flows through the country for about a thousand miles without a single tributary, Egypt would be little more than part of the Sahara. This fertile river, a cradle of civilizations, has provided populations with food and facilitated commerce for thousands of years. Still, 98 percent of Egypt's population remains packed into an area of 15,000 square miles along the Nile and in the Nile Delta.

Egypt occupies the northeastern corner of Africa, extending south from the thirty-second parallel to below the Tropic of Cancer. It is a Mediterranean country; an Arab country, bordered by Libya to the West and by the Sudan to the South; and a Middle Eastern