THE DAILY CALLER

To save Egypt, fix the economy

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It is difficult to remain optimistic about Egypt's future, especially given the rise in violence in the country. On Monday morning, 51 Muslim Brotherhood supporters were killed in what the military described as an act of self-defense.

One worries that with the crackdown on the leadership of the Muslim Brotherhood, and the retreat of the Salafist Al Nour Party from formal politics, the country will see more instances of violence with political and sectarian motivations. But even if Egypt avoids a bloodbath, last week's coup sets a bad precedent for the Egyptian transition — making it clear that it is ultimately the military, albeit with significant popular support, and not the voters, that is calling the shots.

In short, the prospects are grim. With an outflow of foreign exchange reserves, growing poverty and unemployment and a political class that keeps disappointing, it is no wonder that Egyptians are angry. But how can Egypt get out of the hole it is currently in?

Let's not forget that, for ordinary Egyptians, the Arab Spring has been as much about expanding access to economic opportunity as it has been about representative government and democracy. And however much one dislikes authoritarianism and military rule, it seems that the future of the country hinges on the competence and economic clearheadedness of the interim government. Hopefully, courageous reformers will use this as an opportunity to address some of the most pressing economic problems facing the country, while simultaneously leading Egypt towards a stable constitutional system.

Many businesspeople seem optimistic — perhaps overly so. Commenting on the blog Rebel Economy, Mohammed Badra, board director at the Banque Du Caire, said that Egyptians could "see a light at the end of the tunnel." Such sanguineness seems unwarranted but it is true that the military regime will have to deliver on the economic front soon, or it will risk yet another popular uprising.

What needs to be done? First, the country's unsustainable fiscal situation calls for decisive action. That means the subsidy problem must be addressed. Subsidies account for one-third of the total public spending in Egypt — more than education and healthcare spending combined. Unfortunately, the benefits of subsidies accrue mostly to wealthy Egyptians — those who buy a lot of the commodities that are subsidized.

A forthcoming Cato Institute policy study reviews a spectrum of policy options that combine eliminating subsidies and introducing cash transfers that are either indiscriminate or, preferably, directed at poorer households. While this may be politically difficult — especially if the new government does not command wide popular support — it is probably the best way for Egypt to avoid default.

Whoever runs Egypt will need to secure the rule of law. Even in times of relative stability, Egypt was not a great place to do business, create jobs and seize entrepreneurial opportunities. The country has a highly complex tax system, often prohibitive of private enterprise. Egypt ranks 165th on the World Bank's Doing Business project in terms of the difficulty of obtaining construction permits, and 152nd on enforcing contracts. And on the Fraser Institute's Economic Freedom of the World index, Egypt lags behind Haiti, Malawi and Belize — none of which are stellar examples of vibrant, free economies.

In the final years of Mubarak's rule, there was a slow movement towards liberalization and opening up the economy, resulting in decent rates of economic growth before the financial crisis of 2008. Alas, the ineptitude of Mohamed Morsi and of the government of Prime Minister Hisham Qandil meant that many of the economic reforms were stalled or reversed, and replaced by populist measures aimed at simply appeasing the street.

The next leader of Egypt will have the opportunity to lift millions of Egyptians out of poverty and open the economy to entrepreneurship, trade and investment. While the odds of that actually happening are slim, the alternatives are too terrible to imagine.

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