



Editor: Bruce Maddy-Weitzman Vol. 5, No. 3 February 10, 2011

## **The Uprising in Egypt: Poverty, Inequality and Unemployment**

**Paul Rivlin**

Egypt has often been described as a giant sleeping by the Nile. In recent weeks it has woken up and roared with anger. The causes of the huge, unprecedented demonstrations by millions of Egyptians in Cairo and in other parts of the country are both political and economic. The political ones include the lack of democracy exemplified by the fact that the president, Husni Mubarak, has been in power for thirty years and even tried to install his son as his successor. Other closely related factors are the fact that his regime is perceived by the public to be extremely corrupt, which has even become a subject for Egyptian novelists and filmmakers (see `Alaa-al-Aswany's *Yacoubian Building* and Khalid al-Khamissi's *Taxi*, among others). The banning of political parties and candidates, police brutality, torture, appalling bureaucracy and the callousness of the authorities in the face of the population's huge day-to-day problems are also, of course, aggravating factors. Finally, there was a tinderbox of economic grievances. Then came the spark: the deposing in January 2011, of Zine El Abidine Ben Ali, president of Tunisia, which sent Egyptians, both middle and working class, into the streets, hoping for a similar result in their country.

The wealth of the few, including members of the president's family, should be measured against the poverty of so many in Egypt. What is the scale of the problem and how has it developed? In 2009 the population numbered 83 million. The national income was \$172 billion and national income per capita \$2,072. As many prices in Egypt are subsidized, the value of income in terms of purchasing power was much higher: \$5,680, an increase of 60% since 2000. The population is growing by about 1.8% a year, or nearly 1.5 million, but the population of working age is increasing by about 2.2% a year. This means that hundreds of thousands of young people are entering the labor market every year. As a result, Egypt needs to create a million jobs a year just to prevent unemployment from rising.

Measuring unemployment is no easy task: the official figures define unemployment in ways that keep the number low. In 2005, 34% of those aged 15 to 25 years were unemployed. Among 25 to 30 year-olds, the unemployment rate was 16%. There is no evidence of a fall in these rates since then. Unemployment was much higher among women than men; it was higher in urban areas than in rural ones and, perhaps most worrying, it was higher among the educated than among the uneducated. There is also mass underemployment: people who work but do not make any significant contribution. Many in Egypt's huge bureaucracy – which accounted for 25% of total employment – fall into this category. The depth of the unemployment crisis has led to the appointment of Samir Radwan, perhaps the most acclaimed labor economist in the country, as finance minister. The pressures on him to change economic policies in order to improve conditions in the labor market will be immense. How to do this while retaining the confidence of the international financial community will not be easy.

The average Egyptian exists on a very low wage and, as a result, many of those who are gainfully employed nevertheless live in poverty. The large number of low earners and non-earners means that much of Egypt's national income accrues to the better-off. In other words, the distribution of income is very unequal. In 2008, the minimum wage was set at \$70 a month and some 40% of the population had an income of \$2 per day or less. In October 2010, an Egyptian administrative court upheld an earlier verdict that forced an unwilling government to set the official monthly minimum wage at 1,200 pounds (\$207)

for public and private sector employees, most of whom earn between 200 and 500 pounds, much less than the minimum.

Although in recent years the economy has grown by about 5% annually, employment growth has been limited. Furthermore, the pattern of employment growth has been problematic. Between 1997 and 2005, employment increased by 4.3 million, under half a million a year. Of these, 2.5 million were in services, one million in agriculture, 700,000 in construction, but only 85,000 in manufacturing industry. This is the sector that more than any other competes or should compete in international markets. It is the sector that has been at the forefront of China's growth and the huge reduction in poverty that has occurred there and elsewhere in East and South East Asia.

One of the main reasons for Egypt's socio-economic problems is its reliance on rental incomes. The balance of payments is funded by inflows of remittances of Egyptian emigrants, revenues from tourism, Suez Canal tolls, oil and gas exports and foreign aid. Although exports of manufactured goods have increased, they play a much smaller role than in countries that have successfully industrialized. Rental incomes depend as much on what happens abroad as what happens at home and this means that the economy is exposed to the whims of international trends. While this applies to manufactured exports as well, competitiveness plays a greater role there.

As a result the benefits of growth have been smaller than in other countries. One consequence is that 87% of Egyptian households have an annual income of less than \$1,000, while 3% have above \$2000. This compares with 50% of Chinese households who have an income of less than \$1000, while 19% have over \$2,000, and 66% of Indians households with incomes below \$1,000 and 12% with more than \$2,000.

Not only is unemployment understated but so is the inflation rate. In 2010, the inflation rate was 12%, but food prices rose by 20%. As food accounts for 40% of the average Egyptian's expenditure, the sensitivity to food price inflation was something that contributed heavily to the unrest in Egypt. It is also one important source of discontent in Morocco, Algeria, Jordan, Yemen, and of course Tunisia.

The challenges facing the regime are enormous. The demonstrations have brought parts of the economy to a standstill. Losses to the economy have been reported at \$300 million a day. According to newly appointed Vice President Omar Suleiman, one million tourists left the country since the demonstrations began. An official indication of the damage is reflected in the fact that the government has created an \$850 million fund to compensate people for property damaged during the protests.

Will the regime be able to deal with the rampant corruption and cronyism that have resulted in the loss of billions of pounds in tax revenues? Will it be able to control monopolies owned by those close to the leadership? Will it be able to improve the infrastructure? (There is a huge housing shortage with hundreds of thousands, if not more, living in graveyards and in other substandard accommodations.) Will it be able to improve literacy among the 34% of the adult population who cannot read and write? Will it be able to change the pattern of growth so as to create more jobs in sectors that are internationally competitive? These are complex and interrelated issues. The Egyptian economy progressed under Mubarak, but gaps widened and political repression was the order of the day. The combination of these factors led to the explosion, but Egypt remains under army rule. It is the armed forces who will determine the future.

Having discovered their voice, it is unlikely that Egyptians will remain as silent as they have in the past. Whoever succeeds Mubarak will need to improve the economic conditions of ordinary Egyptians or there will be another explosion – and it is likely to happen much more quickly than this one did.

*Paul Rivlin is a Senior Research Fellow at the Moshe Dayan Center for Middle Eastern and African Studies, Tel Aviv University.*

**The Moshe Dayan Center publishes TEL AVIV NOTES, an analytical update on current affairs in the Middle East, on the 10th and 26th of every month, as well as occasional Special Editions.**

**TEL AVIV NOTES is published with the support of the V. Sorell Foundation**