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WP152

**AGRICULTURAL DEVELOPMENT SYSTEMS
EGYPT PROJECT**

UNIVERSITY OF CALIFORNIA, DAVIS

SUMMARY AND PROCEEDINGS
NINTH ADS ECONOMICS POLICY WORKSHOP

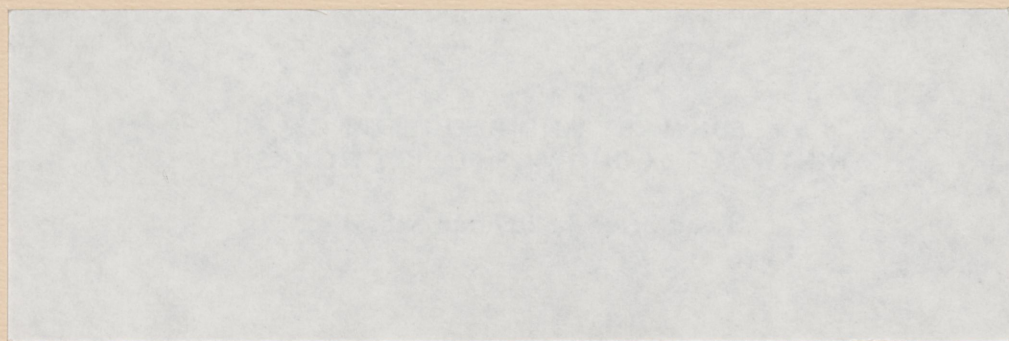
"Food Price Policy and Subsidies"

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**SUMMARY AND PROCEEDINGS
NINTH ADS ECONOMICS POLICY WORKSHOP**

"Food Price Policy and Subsidies"

Assistance from the Agricultural Development Systems Project of the University of California, Egyptian Ministry of Agriculture, and USAID, is gratefully acknowledged, but the author is solely responsible for the views expressed in this paper.

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May, 1983

Agricultural Development Systems:
Egypt Project
University of California
Davis, Ca 95616

NINTH ECONOMICS POLICY WORKSHOP

"FOOD PRICE POLICY AND SUBSIDIES"

May 11-12, 1983
9:30am-3:30pm

Foreign Relations Building
Nadi El-Said Street
Ministry of Agriculture
Cairo, Egypt

Agricultural Development Systems Project is a joint project of the Egyptian Ministry of Agriculture and Food Security and the University of California sponsored by US AID.

ADS EGYPT-CALIFORNIA PROJECT
NINTH ECONOMICS POLICY WORKSHOP
"Food Price Policy and Subsidies"

May 11-12, 1983

The ADS Egypt-California Project is a joint effort of the Egyptian Ministry of Agriculture and the University of California promoting policy-relevant research on problems of the agricultural development of Egypt. The ADS Economics Sub-Project has organized this Ninth Economics Policy Workshop to explore policy issues concerning food price policies and food subsidies in Egypt. Papers and discussion will focus on the impact of food pricing and distribution policies, the role of the food subsidy system, the impact of agricultural pricing on production patterns, and food consumption and distribution patterns.

PROGRAM

May 11, 1983 First Session Food Pricing and Distribution
9:30am-12:00noon Policies in Egypt

Moderators: Dr. Ahmed A. Goueli and Dr. John Rowntree

Welcome and
Introductions: H.E. Dr. Youssef Wally, Minister of Agriculture
Dr. Yehia Mohieldin, ADS Co-Director, Egypt
Dr. Bruce Glassburner, ADS Co-Director, UC

Presentations: Dr. Dyaa Abdou, "Issues for Discussion."

Dr. A. Basheer, "The Decision Making
Process for Agricultural Price Determination
in Egypt."

Mr. Sobhy El-Etriby, "Subsidies and Food
Rationing in Egypt."

Mr. Helmi Abdel-Ghani, "Some Factors Affecting
the Policy of Basic Food Price Subsidies."

Dr. Frank Child, "The Future of the Price and
Subsidy System in Egypt."

Discussants: Dr. Saad Nassar and Dr. Del Gardner

Recorders: Dr. Mohamed El-Shennawy and Dr. Alex Sarris

Lunch Break
12:00noon-1:00pm

May 11, 1983 Second Session Food Subsidies
1:00pm-3:30pm

Moderators: Dr. M. Ragaa El-Amir and Dr. Will Rochin

Presentations: Dr. Del Gardner, Dr. Dyaa Abdou, Dr. Rasmia El-Sayed, Dr. Sonia Aly, and Dr. Adel Moustafa, "Welfare Analysis of Major Subsidized Food Commodities in Egypt."

Dr. Bruce Glassburner, "Exchange Rate Policy in Egypt Since 1973 and Its Significance for Agriculture."

Dr. Fawzy Halim, "The Economic Impact of Ministry of Supply Regulations on the Production and Distribution of Baladi Bread."

Dr. Sohier Gouefel, "Impact of Food Distribution Systems on Subsidies."

Dr. Ghazal Amer and Dr. Nabil Ibrahim, "Subsidies and the Demand for Cereals."

Discussants: Dr. Mohamed Sharaf and Dr. Frank Child

Recorders: Dr. Shawky Imam and Dr. Luis Crouch

May 12, 1983 Third Session Agricultural Prices and
9:30am-12:00noon Production Patterns

Moderators: Dr. Ahmed Goueli and Dr. Frank Child

Presentations: Dr. Dyaa Abdou and Dr. Del Gardner, "The Economic Implications of Enforcing Agricultural Laws."

Dr. Saad Nassar and Dr. Shawky Imam, "Alternative Agricultural Pricing Policies in Egypt."

Dr. Esam Abou El-Wafa, Dr. Riad El-Sayed Emarah, and Dr. Galal El-Malaah, "Input Price Mechanism in Relation to Current Market Constraints."

Dr. Alex Sarris, Dr. Hadi Esfahani, Dr. Mahmoud Mansour, and Dr. Fathia Moustafa, "Evolution of Crop Pattern, Yields, and Profitability in Egyptian Agriculture."

Dr. Luis Crouch, "Structural Changes in Egyptian Agriculture, 1976-1982."

Agricultural Prices and Production Patterns

Discussants: Dr. Nabil T. Habashy and Dr. Luis Crouch

Recorders: Dr. Sonia Aly and Dr. Del Gardner

Lunch Break
12:00noon-1:00pm

May 12, 1983 Fourth Session Food Consumption and Distribution
1:00pm-3:30pm

Moderators: Dr. Mohamed Sharaf and Dr. Del Gardner

Presentations: Dr. S. Ismaiel, Dr. Dyaa Abdou, and Dr. Del Gardner, "Utilization Pattern and Unintended Uses for Major Subsidized Food Commodities."

Dr. Afaf Abd El-Aziz, Dr. Mohamed El-Shennawy,
and Dr. Isis Nawar, "Food Intake in Rural
Egypt According to Regions and Land Holding
Sizes in Rural Egypt."

Dr. Diane Detreville, "Production and Marketing
of Grain and Bread in Rural Egypt."

Dr. Mohamed El-Shennawy and Dr. Amin Abdou,
"Pattern of Food Expenditure in Rural Egypt."

Dr. Sonia Aly and Dr. Dyaa Abdou, "Could Food
Stamps Be an Alternative to the Food
Distribution System in Egypt?"

Discussants: Dr. A. Basheer and Dr. Alex Sarris

Recorders: Dr. Saad Nassar and Dr. Frank Child

Proceedings Committee:

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Dr. Mohamed El-Shennawy
Dr. Saad Nassar
Dr. Sonia Aly
Dr. Shawky Imam

Dr. Frank Child, Co-Chairman
Dr. Del Gardner
Dr. Alex Sarris
Dr. Luis Crouch

SUMMARY AND PROCEEDINGS
NINTH ADS ECONOMICS POLICY WORKSHOP
"Food Price Policy and Subsidies"

May 11-12, 1983

Introduction:

Food prices and subsidies are recognized as one of the central issues in Egypt's current agricultural and economic policy. This workshop discussed this major issue and concluded with some specific recommendations. The workshop stressed food issues, but discussion had general application to agriculture. The complexity and interrelationship of the food prices and subsidies with social, political, managerial, economic and institutional aspects were recognized at the outset.

Generally, apart from affecting levels of supply and demand, relative agricultural prices were viewed as exerting a direct influence on the size and distribution of rural incomes. Over the long run prices also affect rural employment, determine the shifts of resources among production units of varying labor and capital intensities and ultimately affect patterns of agricultural production. In addition to those direct supply and distributional effects, changes in agricultural prices have many intersectoral implications. However, discussion of the workshop stressed the importance of other institutional and technological factors for improving the general economic performance in Egypt.

It was recognized that the food prices and subsidies issue is highly related to two central economic concepts, namely, social and distributive equity, and economic efficiency of resource

allocation. Distortion of economic incentives to Egyptian farmers was viewed as another major related concept.

The discussion focussed on the existing situation of food price policy and subsidies, impacts of food subsidies, agricultural prices and production patterns, and food consumption and distribution. The following is a summary of the discussion of the major issues and the main policy implications coming out of the workshop.

Discussion:

The dominant theme in discussing the food price policy and subsidies concerned the impact on economic and social justice on one hand and on efficiency and performance of the economic system on the other. In addition to problems of allocative efficiency, several views stressed the perverse incentives of the present pricing system for both producers and consumers. Considerable attention was given to the macroeconomic systems of disequilibrium markets, i.e., the large and growing balance of payments deficit and the contribution of the food subsidies to the government fiscal deficit. It was noted that the cost of subsidies was about L.E. 23 million in 1945, and reached over L.E. 2.0 billion in 1982. The cost of subsidies represents about one eighth of the Gross Domestic Product, and food subsidies represents about two third of total subsidies. There was agreement that the political leadership has taken responsibility for providing access for all to adequate levels of food consumption. But there are important questions: Could it be done at lower cost or more effectively? Is the system as

equitable as it could be? Is it really serving the needy and only the needy? What is the cost of the program and who pays it?

Thus, the conflict between equity and efficiency was obvious. It was asserted that existing subsidies and tax systems have increased the share of the lowest income group-representing 50 percent of the population-from 26.1 percent to 32.6 percent of National Income. Also, subsidized food appears to be more equitably distributed and consumed among income classes, and between rural and urban areas.

However, there are considerable welfare losses of the existing food pricing and subsidy program. Under specific estimates of supply and demand elasticities, welfare losses were calculated for wheat, rice, and beans. The annual welfare losses for wheat, rice, and beans reached about L.E. 169.0 million, L.E. 4.0 million, and L.E. 4.0 million, respectively, in 1982. These estimates could be much higher under other specific supply and demand elasticities.

The discussion asserted that there is a conflict of interest among the several ministries participating in the agricultural price determination process. Prices suggested by the Ministry of Agriculture have to be adjusted by a ministerial committee, and People's Assembly. Empirical difficulties in estimating prices based on cost of production, income, and parity formulas were discussed.

It was noted that the actual prices of cotton, wheat, maize, rice and sugar-cane are lower than they should have been under any of the price formulas during the 1971-1980 period. The actual prices of broadbeans and onions were greater than

calculated prices. Also, it was noted that government prices should be announced before planting. Price stability does not imply price suitability. Usually, price formulas did not work well in countries which have tried them because they ignore cost reducing technical advance and thus induce inefficiency by giving distorted signals.

It is asserted that supply price elasticities of the aggregate supply function were very small. This, however, would not imply that little could be done to stimulate output through price policy. Individual commodities' elasticities seem to be more relevant, and these are much larger than the aggregate elasticities.

Much emphasis was placed on the need for technological advance to stimulate output. However, it was noted that experience in technological advance in agriculture indicated that price induced technology is important. Technological advance usually saves the factors that are relatively costly and will be implemented only if incentives are favorable. It was asserted that prices are not independent of this process.

There seemed to be an agreement that risk should be taken into account in price policy. Farmers who are risk averse, gain benefits from a government program that guarantees purchase of quota if there is some price discount on the quota price compared to the free market. Risk factors also appeared to be important in identifying those who chose to violate the cropping pattern and quota delivery laws. It was argued that acceptance of a substantial degree of risk of agricultural sector balance of

trade deficits implies that domestic agriculture should devote more area to horticultural crops, and more risk aversion--less willingness to rely on others--implies greater reliance on food grains, even more than is true now. Changing socio-economic and cultural structure to comply with any derived optimum cropping pattern is a serious problem in the Egyptian agriculture.

As to the impact of existing price and subsidy policies on consumption, it was asserted that the rural Egyptian diet is adequate in terms of quantity and quality. Also, it was noted that the share of the Egyptian budget devoted to food is declining slowly as income rises. Subsidized commodities seemed to be more equally distributed and consumed than other non-subsidized commodities among income classes and between rural and urban areas. However, the distortion in relative price signals lead to increasing the unintended uses for those commodities, e.g., for animal feeding or wastes.

Other food distribution and subsidy alternatives, such as a food stamps program and an income transfer program may seem theoretically preferable to the existing system. However, many empirical difficulties arise in the actual implementation of those programs. It was noted that more investigation is needed to assess these alternatives.

The discussion of this workshop stressed the need for more adequate data. The inadequacy of data to estimate models and draw inferences about supply response or other interrelationships was noted. Tremendous changes in policy variables over time make time series estimates very hazardous.

Conclusion and Recommendations:

The major recommendation of this workshop focussed on the need for improving the existing food pricing and distribution policy so equity goals can be achieved with lower efficiency costs and welfare losses. The following points should be noted:

- 1) All efforts should be directed toward identifying target groups for the food subsidy and distribution system.
- 2) Subsidies at the final product level only are preferred over rationing or a multi-price system.
- 3) Subsidizing urban consumers should not be at the expense of farmers incentives. Farm prices should be adequate to increase production.
- 4) Distributive equity should be attained. However, on the consumers level it should be differentiated from the existing goal of distributive equality.
- 5) Small and poorer farmers tend to violate existing laws and regulations. Existing pricing, land allotment, and quota delivery laws appear to be highly burdensome to small farmers.
- 6) The policy of increasing wages to compensate for subsidy reductions to lower income groups may have inflationary effects, and some groups could not be compensated.
- 7) The tendency to waive penalties on land allotment and quota delivery violators, and lower fines compared with the difference between the free market and the quota prices, affect the enforcement of existing laws and regulations.
- 8) Income distribution in Egypt improved during the 1978-1982 period. However, it is still more unequal than most developing countries.

9) For any change in existing price policy to be effective in changing cropping pattern, attention should be given to consistency with direct quantitative controls.

10) The impact of the existing food subsidy policy on the food consumption pattern is obvious. Increasing amounts of cheap subsidized food are devoted to unintended uses, e.g., livestock and poultry feeding, or are otherwise wasted.

