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Jordan/Egypt: Why Don't the Benefits of Growth Trickle Down?

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Recent labor protests and bread lines in Egypt—in which the army was called in to organize distribution and restore order—present a stark contrast to the Egyptian government's narrative of impressive economic growth, which international financial institutions have validated. Jordan has not experienced serious protests recently, but it is also witnessing growing complaints about inflation despite notable economic growth. In both countries, the private sector has begun to play a much larger role, gross domestic product (GDP) has accelerated, and foreign direct investment, financial markets, and real estate are booming. Yet the two countries' economies have thus far failed to address the needs of their poorest citizens, who feel the acute inflation in basic commodity prices. The gap between the rich and poor has not been reduced and unemployment levels remain stagnant.

Jordan's real GDP grew steadily at an annual rate of 6 percent from 2003 to 2007. Investment surged from JD 52.8 million ($74.8 million) in 2002 to JD 2.2 billion ($3.1 billion) in 2006 and all other macro indicators are similarly positive. Nevertheless, unemployment remains static at approximately 14 percent and the number of Jordanians living below the poverty line—estimated at 14.7 percent in recent government reports—has not declined.

There are many explanations for this welfare-less growth. First, growth in Jordan has come from just a few sectors such as manufacturing, telecommunications, and construction. Within the manufacturing sector, most jobs resulted from qualifying industrial zones, designated areas that produce and export to U.S. markets. Investors mainly came from South Asia and based their competitiveness on cheap labor; 54 percent of some 40,000 new jobs in manufacturing have gone to non-Jordanians. In the construction sector, most new jobs also benefited foreign labor, primarily from Egypt. Thus, these sectors experienced growth and job creation, yet very little that benefited unemployed Jordanians. When new jobs were filled by Jordanians, they tended to be in low-paying sectors such as domestic services. These jobs are generally characterized by unacceptable working conditions and a lack of social security or overtime arrangements that protect workers.

The Jordanian finance and telecommunication sectors do create high-paying jobs, but they require levels of education that the poor normally do not possess. That growth has not benefited the poor is confirmed by the Gini coefficient—one of the most common means of measuring income inequality, where 0 corresponds to perfect equality and 1 to perfect inequality—which remained stagnant at 0.37 between 2002 and 2006. Jordan's unchanging ratio suggests that despite economic growth, no structural change has taken place in terms of income or consumption that would permit greater mobility between social classes.

In Egypt, real GDP grew at a sluggish 1.7 percent in 2003 but has climbed steadily since, reaching 6.8 percent in 2007 and expected to exceed 7 percent for the 2007/2008 fiscal year. As a result of the 2.4 million new jobs, unemployment fell from 10.5 percent in 2006 to 9 percent in 2007. Just as in Jordan, however, growth in Egypt has come largely in sectors (energy, telecommunications, and construction) that do not employ unskilled workers, thus cannot absorb the 20 percent of citizens who live below the poverty line. The real estate market has been booming, putting housing increasingly out of the reach of the poor. Furthermore, the government has been forced to maintain food subsidies, leading to a budget deficit that in 2007 reached 7.5 percent of GDP and is expected to increase in 2008.

Hardship for many Egyptians is likely to increase. As in Jordan, the Egyptian government has begun to align energy prices with the international market, and intends to phase out most industrial energy subsidies by 2010. Egyptians—many of whom have stagnant wages—thus are beginning to feel the effect of global increases in energy and food prices, leading to an inflation rate of 6.2 percent in 2006 and 8.8 percent in 2007. Inflation has been concentrated in items such as food and basic commodities, which constitute a significant share of a household's consumption. In 2007, food items accounted for 44 percent of total inflation and increased energy costs contributed 13.5 percent. Shortages also are emerging, as the recent bread crisis demonstrated.

Economic reform has also led to other changes that are beginning to spark unrest in Egypt. Thirty-eight percent of Egyptians who receive wages or salaries work without formal contracts or social insurance; in the private sector, the number is an astounding 71 percent. There is evidence that privatization has led to deterioration in health and safety conditions, as the Ministry of Manpower and Trade Unions tries to create a balance between the rights of workers and the economic interests of private sector owners. As a result, in 2007-8, Egypt witnessed an intensity of worker strikes and mobilization that had not been seen in decades. The strikes began in clothing factories, but have since spread to include a broader spectrum of the Egyptian working class and have increasingly become political in nature.

It is possible that both Egypt and Jordan are witnessing transition periods and that eventually the benefits of remarkable economic growth will trickle down to the poor. For now, the poor are suffering disproportionately from the inflation that often accompanies growth, as well as from global price trends. Inflation is generally more prevalent in food items and basic commodities that constitute the largest share of the poor's consumption basket. Conversely, property and equity owners can adapt their expenditures and are more protected against the consequences of inflation. Considering the troubling political implications, it would behoove the Jordanian and Egyptian governments to formulate comprehensive macroeconomic polices to promote trickle down sooner rather than later. In this regard, governments should revise their fiscal policies toward subsidizing those in need rather than subsidizing all. Governments should also work to dismantle monopolies, particularly in commodity markets, so that the poor can negotiate more effectively.

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