

Book Reviews

Ahmed Galal and Nadeem Ul Haque (eds). *Fiscal Sustainability in Emerging Markets: International Experience and Implications for Egypt*. Cairo/ New York: The Egyptian Center for Economic Studies. 2006. ix+289 pages. Paperback. Price not given.

Fiscal sustainability is required to attain and maintain the long-run steady-state growth in emerging markets, to create fiscal space for rural and urban poverty, to safeguard financial stability, and to achieve the overall Millennium Development Goals. This can be done by providing financial support and by encouraging further research in this area. This book analyses the issues in the context of international experience and its implications for Egypt. It touches on issues of fiscal deficit and public debt sustainability, debt management, efficiency and equity of social expenditure, and public investment, the will and power to achieve civil service reform, and transparency and equitability of the budgetary process. It fills a gap in research.

The endeavours of the editors are commendable in pinpointing the current issues regarding a developing country, Egypt. The volume collects papers presented in a conference in Cairo on October 19-20, 2003, organised by the Egyptian Centre for Economic Studies (ECES). The findings of the book would be helpful in providing guidelines for the developing countries as a whole.

The book consists of five parts containing ten chapters. Part 1 enhances our understanding of fiscal sustainability, debt management, and macroeconomic stability in two chapters. Chapter 2 by Willem Buiter, provides an authoritative overview of debt policy and sustainability issues, and warns against acquiring debt (more than twenty-five percent of GDP) in the poor countries due to their weak fiscal and administrative institutions. Government can overcome the situation either by managing net financial liability positions when spending is unusually high or tax base is low or by maintaining a positive net financial asset position when spending is low and revenues are high. It also suggests enhancing the stock of financial assets in good times and reducing it in the bad times by following the rules to build up public debt sustainability even if the body politic and institutions are strong enough. Peter J. Montiel in Chapter 3 warns against the arrogant policy of debt accumulation and based on his learning from the Mexico experience the author of this chapter suggests recommendations on optimal composition of debt and debt management, structures of debt maturity, currency composition, and indexation. The chapter emphasises on minimising the debt servicing cost as an objective of public debt management, relates debt management to financial development, and discusses credibility, hedging, and vulnerability in detail applying the practical example of Mexico. The objective of debt management along with cost minimisation is the development of the financial system and hence the economic growth. Debt management must be attained by improving government's creditability, increasing in the base of inflation tax, reducing the borrowing cost, price sustainability, increasing government's vulnerability to increase in prices, real interest rate and exchange rate shocks.

The following two chapters of Part II are devoted to sustainability and debt management in Egypt. Alejandro Izquierdo and Ugo Panizza in Chapter 4 discuss the issue of fiscal sustainability in emerging markets (EMs) countries; they present a review of literature and apply it in the economy of Egypt. The chapter shows what uncertainties emerge due to limited capacity to raise taxes, volatile revenue bases, and economic swings based on large external real and financial shocks. Probably seven years with no shocks are required to adjust, and fiscal sustainability in Egypt is of real concern. Policy adjustments are preferred to fiscal adjustment as latter are socially and politically costly. The chapter analyses a model that aims at evaluating sustainability by using a probabilistic model even in a very pessimistic scenario and concludes that stops should not be made an important cause of concern in the case of Egypt.

“Fiscal and Public Debt Sustainability in Egypt” is presented in Chapter 5 by Pedro Alba, SherAl-Shawarby, and Farrukh Iqbal. It examines fiscal trends in Egypt and observes that debt as a percentage of GDP has been rising since the early 1990s. It distinguishes between a cyclical factor based on aggregate demand and the exogenous factors including policy changes. It further concludes that fiscal policy was pro-cyclical in Egypt during the 1990s and early 2000s. Under the assumption of no exogenous shocks Egypt takes approximately six years to adjust its fiscal situation and it could be improved by attaining higher economic growth and exchange rate stability.

Part III deals with Social Expenditure and Public Investment in Egypt. In Chapter 6, Ahmed Galal evaluates the extent to which public expenditure on education, health, and food subsidies has been efficient and equitable in Egypt even in times of fiscal tightening. Three approaches (industrial, engineering, and accountability) were used to justify the public expenditure and optimise the outcomes by improving technical efficiency, emphasising incentives to motivate the stakeholders involved, and empowering users to build pressure groups to get influence on providers and policy-makers. The chapter concludes with the opinion that there is a dire need for effective reforms to determine the nature of the relationship between policy-makers, providers, clients, and citizens. Four key reform elements, motivation through incentives, monitoring through the creation of independent and well staffed organisations, markets in education and health sectors, and money for combining the above three, are emphasised.

Samiha Fawzy and Nihal El Megharbel in Chapter 7 explore the relationship between public and private investment and find out that public investment in non-infrastructure crowds out private investment. Therefore, no new project should be initiated in the non-infrastructure activities and appropriate policy should be made to stimulate private investment in the short and medium runs. If infrastructure public investment is found to be complementary, it requires the active involvement of the government in education and health sectors. In the end, recommendations pertaining to infrastructure and non-infrastructure public investment are made. Non-infrastructure includes new investment for maintenance and rehabilitation, accelerate the privatisation process, raise the efficiency of investment and develop non-infrastructure projects including new investment for maintenance and rehabilitation. Infrastructural activities include restructuring current projects to enhance efficiency, assigning higher weights to human infrastructure, encouraging local and private investors, and seeking new and diversified sources for funding.

Part IV consists of two chapters, 8 and 9. In Chapter 9, Nadeem Ul Haque emphasises the importance of civil service reforms in the developing countries and tries to find out the ways and means to develop the ideas to tackle these complicated issues. He is of the view that downsizing and changes in the procedures and the structure of the civil service without emphasising on human resource management issues will strongly be resisted within the civil service. Public servants' welfare, and efficiency and productivity, should be improved simultaneously by setting a clear vision and evaluating the outcome, based on the incentives provided. Efficiency-enhancing reforms would automatically take care of downsizing. These reforms should be vertically and horizontally expanded in the leadership of local reform leaders and managers having broad vision. Ul Haque argues that human management can be improved by introducing multitasking, team work, extrinsic incentives, convex wage structures, and constitutionally determined common agency. At the end of the chapter, the author draws eight lessons from unified Civil Service Reforms. The success of CSRs depends on the extent of the heterogeneity of the public sector, elimination of the perks, service-oriented public sector, good market signalling and credibility, clear missions and autonomy, decentralisation, delegation and devolution, professionalism, and leadership.

Heba Hanoussa and Nivine El Oraby in Chapter 9 discuss civil service wages and reform in Egypt. The Egyptian government had provided around 42 percent aggregate non-agricultural employment as compared to the other developing countries, where the percentage varies from 10-15 percent. Both employment and wage bill expanded rapidly as a result of a guarantee scheme while the salaries remained well below the prevailing inflation due to absence of efficient and objective-oriented human resource management. *Ad hoc* allowances were given to compensate the employees for the ills of inflation. Long-term planning is required to reduce surplus employment in administration and to increase the wages and salaries of productive government employees.

The last Chapter by Richard Allen, Arup Banerji, and Mustapha Nabli, evaluates the budgetary process in the light of Egypt's budgetary institutions. Improving budgetary institutions is required for more transparency and accountability leading to a sustainable fiscal policy. The authors recommend a number of important areas where reform efforts can enhance budgetary expenditure control. Lessons should be learnt from the practical experiences of other developing countries in adopting the cautious approach to reform, and each country should develop institutions-building based on its own national, cultural, legal, and historical characteristics. Modernisation in budgetary institutions can not be implemented without serious commitments over a sustained period of time. These include strong leadership, political consensus, and consultation with partners. It should be kept in mind that if the reform strategy goes off track, it would be very difficult, or even impossible, to set it right.

The chapters in the book are authored by renowned economists in the area of public finance with special reference to Egypt. Indeed, the book will be very useful to policy-makers, academics, and readers interested in public finance.

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