

Subsidies, Social Contracts, and State Legitimacy: Rethinking Fiscal Reform in Egypt

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Abstract

Since the 1950s, subsidies for food, fuel, and other essentials have been instrumental to Egypt's social contract, functioning as economic support and as political signals of state protection. Over time, these subsidies have burdened public finances and added heavily to government debt, prompting post-2014 reforms under President Abdel Fattah El-Sisi that reduced subsidy programs, which drew international approval, yet exposed vulnerable households to inflation, higher transport and food costs, and declining purchasing power. This paper synthesizes the literature through three perspectives: fiscal-economic, social-equity, and political-governance, and interprets findings with Welfare State Theory, Neoliberalism, Social Justice Theory, and Rational Choice Theory. The analysis underscores persistent trade-offs. Reducing government deficits can create the conditions for stability and investment. However, distributional equity often suffers, with disproportionate burdens on rural communities, female-headed households, and residents of Upper Egypt. Outcomes are shaped by historical legacies, elite privilege, and public expectations of fairness, which gives subsidy retrenchment moral weight as well as economic significance. The paper argues for gradual sequencing of subsidy reductions, inflation-indexed social transfers, and equity measures that address gender and spatial disparities, alongside stronger governance and communication structures. Egypt's experience demonstrates that subsidies cannot be understood in fiscal terms alone. They are political symbols and moral commitments, and reforms will endure when they preserve legitimacy, protect the vulnerable, and reinforce the social contract that supports stability, fairness, and inclusive growth.

Keywords: Egypt, Subsidy Reform, Social Contract, Welfare State, Neoliberalism, Social Justice, Rational Choice Theory, Equity, Governance

Table of Contents

Introduction.....	4
Problem Statement.....	5
Literature Review.....	7
History of Subsidies in Egypt.....	7
Macroeconomic and Distributional Impacts of Reform.....	10
Societal and Welfare Impacts of Subsidy Reform.....	13
Political-Economy and Institutional Impacts.....	17
Analysis.....	21
Fiscal Perspective: Analysis through Welfare State and Neoliberal Theories.....	21
Social-Equity Perspective: Analyzed through Social Justice Theory.....	23
Political-Governance Perspective: State Capacity and Elite Capture in Rational Choice Theory.....	25
Ethical Implications.....	28
Policy Recommendations.....	31
Summary.....	34
References.....	38

Introduction

Since the 1952 revolution and the early Nasser era, subsidies have been a central feature of Egypt's social contract. By 2013, long-standing fiscal pressures had escalated to unsustainable levels. Energy subsidies alone consumed 22% of total government expenditures, while fossil fuel subsidies accounted for 7% of GDP, surpassing combined spending on health and education, which stood at approximately 5% (World Bank, 2017). The challenge was as much about politics as it was about economics, as the state had to reduce its subsidy burden without abandoning those it was meant to protect.

In July 2014, the Egyptian government launched a bold reform package, beginning with steep reductions in energy subsidies. Despite concerns that such measures would spark unrest, especially given Egypt's history of protest over price shocks, the initial implementation was met with limited resistance. Moerenhout (2018) attributes the lack of resistance to a convergence of factors, including strong military support, the marginalization of opposition forces after the crackdown on the Muslim Brotherhood, and a reform narrative framed around nationalism and social justice. While these political conditions eased the path to reform, the socioeconomic consequences were more uneven. Breisinger et al. (2019) found that subsidy cuts in Egypt led to immediate declines in growth and household welfare, with low-income and vulnerable groups carrying the greatest burden. Although long-term growth prospects improved under scenarios where savings were redirected to investment, most households continued to experience lower levels of consumption, with only limited gains for higher-income urban households. Expanded food subsidies and targeted cash transfer programs eased some of the adverse effects for vulnerable groups, but did not fully offset the losses. The study emphasizes that the durability of

reform rests on how subsidy savings are allocated, highlighting the need for both equitable and strategic use of fiscal resources (Breisinger et al., 2019).

More recently, in March 2025, the International Monetary Fund (IMF) Executive Board conducted the fourth review of Egypt's Extended Fund Facility (EFF), authorizing a \$1.2 billion disbursement and bringing total funds disbursed under the program to \$3.2 billion. At the same time, the Board approved a \$1.3 billion Resilience and Sustainability Facility (RSF) to provide funding for climate adaptation and decarbonization efforts, while also concluding the 2025 Article IV Consultation (International Monetary Fund, 2025). Despite a challenging external environment, including Red Sea trade disruptions and an influx of refugees from Sudan, Egypt preserved macroeconomic stability. Economic growth has slowed in recent years but has begun to show early signs of recovery. Inflation, which had reached exceptionally high levels, is gradually moderating, and unemployment has edged down slightly. Despite these improvements, the macroeconomic outlook remains fragile, with continued downside risks stemming from regional instability, elevated public debt, and uneven progress on structural reforms (International Monetary Fund, 2025).

Problem Statement

Egypt's post-2014 subsidy cuts underscore the enduring tension between achieving fiscal stability and protecting social welfare. Poorly designed reforms risk deepening inequality and eroding public trust. However, it is also critical to underscore that delays or inaction threaten the long-term fiscal solvency of Egypt. This paper examines whether Egypt can reform its food and fuel subsidies in ways that deliver fiscal savings while safeguarding, and potentially enhancing, distributive equity.

To address this question, the paper undertakes an integrated literature review and thematic analysis of Egypt's subsidies and reform efforts. It first traces the history of the subsidy system to highlight its political and economic significance, then evaluates reform outcomes through three perspectives: fiscal-economic, social-equity, and political-governance. These perspectives are interpreted through four theoretical frameworks: Welfare State Theory, Neoliberalism, Social Justice Theory, and Rational Choice Theory. Ultimately, the issue is whether a state can modernize entrenched welfare systems while maintaining political stability. The analysis engages both economic reasoning and ethical considerations to support more balanced, evidence-driven policymaking.

Literature Review

History of Subsidies in Egypt

Egypt's subsidy system first took shape in the 1940s as a wartime emergency measure but quickly became a defining feature of the post-colonial social contract by the early 1950s (Lorenzon, 2016). Under President Gamal Abdel Nasser, subsidies for *baladi* bread, Egypt's subsidized flatbread staple, along with fuel and basic services, anchored a state-led populist project that drove rapid industrialization and expanded access to education and healthcare. These measures advanced social equity while consolidating state authority (Shehata, 2018). Beyond their economic function, subsidies carried symbolic weight as guarantees of state protection for low-income urban residents and the working classes, sustaining regime legitimacy despite mounting fiscal pressures, rising population growth, and the economic fallout of the 1967 war (Gutner, 2002). Over time, subsidies became intertwined with ideas of social justice, rendering reform politically costly and embedding subsidies within a broader state strategy of preserving social cohesion through material guarantees. These commitments solidified into public expectations, shaping political debate and limiting the scope of leaders to pursue market-oriented reforms.

The weight of this legacy shaped the *infitāḥ* (Arabic for "openness") era under President Anwar Sadat. His 1974 open-door policy marked a pivotal turn toward private investment and foreign capital, coupled with a strategic reorientation away from the Soviet Union and toward the United States (Baker, 1981). Even as Sadat pursued economic liberalization, efforts to curtail subsidies faced resistance from deeply rooted public expectations and carried the risk of eroding social cohesion. This tension came to a head in 1977, when Sadat's attempt to cut food subsidies sparked the Bread Riots, forcing the government to rescind the cuts within two days after the

announcement of the subsidy cuts. Although often described as “food riots,” Gutner (1999) asserts that they were more accurately “equity riots,” reflecting perceptions of unfairness rather than just food scarcity. The Bread Riots underscored the political sensitivity of core staples such as bread and wheat flour. Subsequent reforms during the 1980s targeted less sensitive goods such as cooking oil and sugar and introduced technical adjustments, including two-tier ration cards and wheat–maize flour blends (Ahmed & Bouis, 2002). These measures reduced subsidy costs from 14% of government expenditures in 1980/81 to about 5.6% in 1996/97, but problems of inefficiency, leakage, and poor targeting persisted. Successive governments recognized that even gradual changes required careful sequencing and messaging to avoid sparking renewed unrest.

Hosni Mubarak’s presidency (1981–2011) pursued a gradualist path of economic liberalization that expanded private sector participation while continuing selective subsidies as part of regime legitimacy. Liberalization and industrial policy, however, were captured by politically connected elites, who benefited disproportionately through preferential access to state contracts, subsidized energy, and lucrative opportunities in construction, real estate, tourism, and other industries (El-Haddad, 2020). By the 2000s, the growing fiscal burden of subsidies, coupled with rising debt service and Egypt’s dependence on imported fuel and wheat, placed increasing pressure on the state budget. According to Diab (2023), monetary savings from subsidy cuts were not reinvested into programs supporting health or education; instead, they went largely to servicing debt, while targeted cash transfers failed to compensate low-income households. These structural imbalances weakened the redistributive function of subsidies and increased socioeconomic vulnerabilities, contributing to the broader discontent that shaped Egypt’s 2011 uprising. Following Mubarak’s ouster during the Arab Spring, Mohamed Morsi’s brief presidency (2012–2013) was undermined by staunch institutional resistance and growing

political fragmentation. As al-Anani (2015) explains, the Brotherhood was nominally in power but lacked legitimate control over the state. Egypt's bureaucracy, judiciary, and military rejected its authority, while decades of exclusion had left Brotherhood leaders inexperienced in governance. Any attempt to reform or restructure state institutions was met with suspicion and pushback, reinforcing public perceptions of incompetence and further eroding Morsi's authority (al-Anani, 2015). Taken together, these dynamics critically weakened his presidency and played a central role in the Brotherhood's rapid downfall in 2013.

In contrast, President Abdel Fattah El-Sisi, who rose to power in 2014, advanced sweeping fossil fuel subsidy reforms within a tightly managed political environment. His government implemented steep fuel price hikes, including a 78 percent increase in gasoline-80, along with substantial natural gas price increases staggered by consumption levels and higher electricity prices for all consumer groups (Moerenhout, 2018). These measures significantly reduced subsidy expenditures and were welcomed by international financial institutions. However, they also triggered sharp inflationary effects, particularly in food and transport costs, heightening poverty risks and fueling debate over the balance between fiscal consolidation and social protection.

The trajectory of Egypt's subsidy system underscores a constant tension between fiscal sustainability, regime legitimacy, and social stability. Subsidies have operated as both economic instruments of aid and as political tools for containing dissent, cultivating support, and reinforcing the state's distributive obligations. Tracing this history is critical for understanding the macroeconomic and distributional consequences of reform, as prior episodes demonstrate that significant equity costs often accompany efficiency gains. These trade-offs are mediated by institutional capacity, levels of public trust, and the sequencing of reform, which together shape

both the pace of change and the durability of outcomes. At the same time, international institutions, domestic coalitions, and the collective memory of past unrest impose constraints and incentives that weigh heavily on reform design. The following section examines these macroeconomic and distributional effects in greater depth, drawing on evidence from both food and energy subsidy reforms to analyze these interdependencies.

Macroeconomic and Distributional Impacts of Reform

Empirical studies by Cockburn et al. (2017) and Breisinger et al. (2019) indicate that gradually eliminating broad energy subsidies in Egypt, when paired with well-targeted social transfers, can yield fiscal savings and efficiency gains over the long term. However, the short-term distributional costs remain significant and politically sensitive. Using Computable General Equilibrium Model (CGE) modeling, Cockburn et al. (2017) and Breisinger et al. (2019) found that subsidy elimination reduces budget deficits and supports medium-term growth but also raises consumer prices in the immediate term, thereby increasing poverty and inequality. Breisinger et al. (2019) highlight that redirecting a portion of these fiscal savings toward targeted transfers, such as Egypt's Takaful and Karama programs, can offset adverse impacts, restore equity, and strengthen social stability. The sequencing of reforms is equally critical. Mostafa (2021) finds that energy subsidy reform in Egypt has had adverse effects on economic growth and reports a statistically significant positive relationship between subsidies and GDP growth. This suggests that reducing subsidies weakened growth in both the short and long term. Mostafa (2021) explains that subsidy reform raised the prices of energy, electricity, and transportation, which in turn fueled inflation. Subsidy reform also reduced household income and purchasing power, especially among people experiencing poverty. At the same time, higher production and transport costs eroded the competitiveness of Egyptian firms. Finally, the increased costs and

uncertainty discouraged private sector investment. Overall, the evidence points to the trade-offs embedded in subsidy reform, where fiscal savings were achieved but at the cost of growth, equity, and broader economic resilience. Elshennawy (2014) finds that eliminating subsidies all at once magnifies welfare losses and triggers sharp contractions across most sectors. A phased withdrawal, by contrast, produces smaller welfare declines because prices rise more gradually, households adjust consumption over time, and firms have less scope to exploit pricing power. Fuel subsidies declined sharply from 7.0 percent of GDP in FY2013/14 to 2.7 percent in FY2016/17, with pricing reforms accounting for roughly one-third of the reduction (World Bank, 2017). However, the inflationary shocks and political resistance that accompanied these reforms highlight the importance of robust safety nets to sustain momentum and guard against policy reversal.

In the food sector, the design and targeting of subsidies remain especially consequential. Löfgren and El-Said (2001) show that targeting subsidies for bread, wheat flour, sugar, and oil to lower-income households can substantially reduce fiscal costs while raising real consumption among vulnerable groups, particularly in rural areas where poverty is concentrated. By contrast, eliminating subsidies without compensatory measures leads to regressive outcomes, as the most economically vulnerable households experience the most significant welfare losses while higher-income groups capture only modest gains. Audet et al. (2007) caution that reshaping the subsidy basket to include non-essential goods such as beans and macaroni does little to alleviate poverty, underscoring the continued importance of preserving core staples like bread. Similarly, Ramadan and Thomas (2011) found that bread subsidies remain a critical safety net for Egyptian households, particularly in rural areas. Bread alone accounted for over 76 percent of the total food subsidy budget in 2009, underscoring its centrality in household consumption (Ramadan &

Thomas, 2011). Their mixed demand analysis finds that the removal of subsidies can produce significant welfare losses, with losses exceeding 10 percent for the lowest-income rural households under scenarios that combine subsidy elimination with sharp increases in cereal prices. These results reflect the fact that economically disadvantaged households spend a significant share of their food budget on calorie-dense staples such as bread, cereals, subsidized flour, and beans, making them especially vulnerable to subsidy retrenchment and food price shocks. The findings of Ramadan and Thomas (2011) highlight the necessity for reform strategies that balance fiscal objectives with social protection, given the economic and political significance of food subsidies in Egypt.

Torayeh (2015) argues that Egypt's fiscal imbalances cannot be explained by macroeconomic factors alone but are deeply rooted in institutional weaknesses such as corruption, administrative inefficiency, and political instability, which exert more persistent effects on fiscal balances than macroeconomic indicators, thereby constraining the effectiveness of reform. Overall, the literature suggests that subsidy reform can strengthen Egypt's fiscal position and protect low-income groups, but only when implemented gradually, paired with credible compensation mechanisms, and integrated into broader strategies on trade, competition, and governance. Effective implementation thus requires building institutional trust, ensuring transparent policy communication, and sequencing reforms in ways that align fiscal consolidation with social protection. Absent such an integrated approach, reforms risk provoking social unrest, eroding credibility, and perpetuating structural inefficiencies, ultimately undermining both fiscal sustainability and long-term development.

At the same time, the literature highlights fiscal sustainability and efficiency gains from subsidy reform; it also shows that macroeconomic outcomes are inseparable from the equity of

distributional effects. The social and welfare dimensions of how reforms impact vulnerable groups, shape perceptions of fairness, and recalibrate state–citizen relations, are central to assessing reform viability. These dynamics not only condition the immediate public response but also determine the long-term durability of reforms, as perceptions of inequity can erode trust, weaken legitimacy, and fuel resistance. Equally important is the interaction between social protection programs, public service delivery, and compensation mechanisms, which often dictates whether reforms are experienced as equitable or exclusionary. The following section examines these social and welfare impacts in greater detail, drawing on empirical evidence from Egypt’s recent reform episodes alongside comparative cases from other developing economies.

Societal and Welfare Impacts of Subsidy Reform

Egypt’s subsidy system reflects not only fiscal priorities but also welfare politics and human security, shaped by the weight of historical memory. Henry (2021) interprets the 1977 Bread Riots as civic resistance rooted in Nasserist ideals of social justice and state responsibility, pushing back against adjustment measures that disproportionately benefited elites. Through his concept of fluid memory, Henry (2021) underscores how the 1977 uprising has been continually reactivated, including during the 2011 revolution, as a symbolic benchmark for opposing austerity and reaffirming the informal social contract between citizens and the state. This enduring narrative frames subsidies not merely as economic tools but as moral obligations, with their removal interpreted as a breach of trust. El Rafhi and Volle (2020) find that support for redistributive policies in Egypt, including subsidies and social protection, rose markedly after 2011, climbing from 22 percent to 59 percent. This surge was not the result of demographic change. It was driven by the political opening of the Arab Spring, which encouraged new civic engagement. Within the post-2011 civic climate, economic grievances converged with demands

for dignity, equality, and broader social protection. Their analysis underscores that redistribution in Egypt has always been shaped as much by politics as by economics, helping to explain why subsidy reform often provokes reactions that are simultaneously material and political.

Empirical evidence also shows uneven subsidy distribution outside of food and energy. For example, Rashad and Sharaf (2015) found that while outpatient healthcare subsidies administered through the Ministry of Health and Population are mildly progressive, university hospital subsidies disproportionately benefit wealthier households, underscoring the importance of effective targeting in other sectors as well. In the energy sector, according to Belaïd and Flambard (2023), fuel poverty in Egypt arises from the combined effects of low incomes, high energy use, and burdensome housing costs. They find that 16.4 percent of households fall into the category of high energy demand, low income, and high housing expenses, while 7.44 percent fall into the category of high energy demand, low income, and low housing expenses. Large families, households with lower levels of education, and residents of rural Upper Egypt are disproportionately affected. The findings of Belaïd and Flambard (2023) suggest that policymakers address fuel poverty with a multidimensional approach, combining income support, energy efficiency measures, and regionally targeted policies.

It is also critical to account for gendered impacts. El-Hamidi (2016) finds that female-headed households allocate a significant share of their income to electricity and transportation, leaving them particularly vulnerable to subsidy reform. Data from the Egypt Labor Market Panel Survey (ELMPS) show that the share of female-headed households grew from 12 percent in 2000 to 18 percent in 2012, an approximately 50 percent relative increase, with many concentrated in rural Upper Egypt, where poverty rates are highest. In these regions, more than 65 percent of female-headed households have no formal education, and many are widowed

pensioners or employed in low-paying informal agricultural labor, in contrast to male-headed households, which are more likely to hold stable employment. These intersecting disadvantages underscore the need for targeted compensation and support mechanisms that address both gender and regional disparities.

Food subsidy reforms also carry significant distributional effects, shaping welfare outcomes across both income levels and geographic regions. Hosni and Ramadan (2018) show that eliminating direct food price subsidies without compensatory measures would sharply increase food expenditures for all households. The low-income rural households would be most affected, given their greater dependence on subsidized staples and their more limited disposable incomes. However, Hosni and Ramadan (2018) note that well-designed targeted cash transfers could offset much of these losses, provided leakage and exclusion errors are minimized.

Ramadan (2024) situates these reforms within Egypt's broader agrifood sector, which continues to battle deep structural constraints, including fragmented landholdings, heavy dependence on imported cereals, and mounting climate pressures. Projections suggest that by 2050, wheat production could decline by 15 percent, rice by 11 percent, and maize by 19 percent, with additional risks of losing up to 30 percent of the Delta region's production by 2030 (Ramadan, 2024). While recent reforms have emphasized efficiency, fiscal sustainability, and expanded private-sector participation in food distribution systems, food security remains highly susceptible to global price volatility and supply chain disruptions, as shown during the 2008 food crisis, the COVID-19 pandemic, and the Russo-Ukrainian war.

Ahmed (2014) shows that Egypt's food security was tested by the 2006–2008 global food price crisis and the subsequent 2008 financial crisis. Egypt's reliance on food imports makes it highly exposed to global price fluctuations. The IMF estimates suggest that changes in world

commodity prices account for about one-third of the variation in headline inflation. Within this, world food prices play a much larger role, explaining nearly 40 percent of the variation, compared with just 3 percent for fuel (Ahmed, 2014). Ahmed (2014) adds that impoverished households, which devote at least half of their budgets to food, were impacted the hardest, and rural Upper Egypt emerged as the epicenter of vulnerability, containing half of the low-income population and two-thirds of those in the ultra-low-income bracket. Both the 2006-2008 global food price crisis and the 2008 financial crisis imposed heavy fiscal strain, as the cost of maintaining subsidies surged at a time of falling revenues. To contain social unrest and protect consumption, the government expanded bread subsidies, widened ration card coverage, and introduced additional social protection measures, often with support from international organizations (Ahmed, 2014).

Mahfouz et al. (2021) highlighted the multidimensional character of food insecurity, linking it to severe maternal mental distress. Mahfouz et al. (2021) found that food insecurity, socioeconomic status, number of children, and whether the husband was working abroad were significant predictors of maternal distress, while household debt further heightened vulnerability. These findings underscore the need for policies that protect at-risk groups and address both the economic and psychosocial dimensions of food security.

The literature underscores that subsidy reform in Egypt cannot be measured solely through fiscal metrics. Subsidies carry deep social and political meaning, functioning as guarantees of dignity and stability. The reduction of subsidies generates consequences that reach far beyond the balance sheet. The evidence shows that the burdens of reform are unevenly distributed, with rural households, low-income individuals, female-headed households, and communities in Upper Egypt facing the most significant vulnerabilities. It is also critical to note

that food security is also magnified by external pressures such as global price volatility, climate change, and structural weaknesses in the agrifood system. Importantly, food insecurity is not only a question of consumption but also of psychosocial well-being, with demonstrated links to maternal mental health. These findings underscore that the sustainability of reform depends on whether it protects vulnerable groups, mitigates inequities, and preserves public trust. The following section addresses the political-economy and institutional dimensions of reform, examining how power, governance, and state capacity shape both the design and durability of subsidy policies.

Political-Economy and Institutional Impacts

The trajectory of subsidy reform in Egypt is inseparable from the political-economy dynamics that have structured state–society relations for decades. Moore (2017) argues that the 2011 uprising must be understood within a longer trajectory of fiscal decline that began in the late 1970s, when declining state revenues and a growing reliance on regressive taxation weakened state capacity, widened inequality, and entrenched structural grievances. Moore (2017) shows how fiscal retrenchment, structural adjustment measures, and market-oriented reforms contributed to chronic underfunding of education, poorly regulated privatization, and increased reliance on labor migration. These policy shifts placed disproportionate burdens on lower-income households and fueled widespread discontent. Over time, the cumulative erosion of the state’s redistributive role deepened perceptions of injustice and delegitimized the state’s social contract, laying the groundwork for the mass mobilization that culminated in the 2011 uprising (Moore, 2017).

Subsidies, especially for bread, have long functioned not only as a social safety net but also as a central pillar of political stability in Egypt. Salevurakis and Abdel-Haleim (2008) found

that despite repeated pressure from the IMF to scale back subsidies in 1977, 1987, and 1991, the violent Bread Riots of 1977 revealed how politically sensitive food prices were and forced the government to maintain its subsidy system. The bread subsidy, because of its low cost, mass consumption, and status as an inferior good, displayed self-targeting tendencies that directed benefits primarily toward low-income households while helping to contain unrest. These factors made subsidy reform politically risky and closely tied to the regime's ability to maintain its legitimacy and survival. Similarly, Trego (2011) finds that during the food-price shocks of 2003, triggered by the devaluation of the Egyptian pound, and the 2007–2008 global price spikes, the Mubarak government expanded subsidies to preserve legitimacy and contain unrest, even at the cost of greater inefficiencies, black-market leakage, and fiscal strain. These recurrent expansions of subsidy programs during crises underscore how subsidies functioned as a buffer in the state's political toolkit. Although reform was attempted, it was ultimately deferred in the face of political risk.

Authoritarian closure and the coercive nature of Egypt's post-2013 political order created the conditions for subsidy reform within a closed society. Thyen and Karadag (2021) extend the political-economy analysis of subsidies to the international arena, showing how Egypt's post-2013 authoritarian consolidation enabled coercive alignment with international organizations. Under Sisi, reforms such as digitized smartcards, capped bread allotments, and the removal of non-eligible recipients were introduced, aligning with international recommendations while leaving core subsidies intact. However, by 2017, media reports indicated that the automated smartcard system led to the erroneous removal of individuals who were actually eligible to receive subsidized food. These measures, endorsed by international financial institutions, show

how authoritarian closure allowed targeted reforms while preserving the symbolic core of Egypt's subsidy system.

The persistence of subsidies in Egypt was connected with the broader system of political privilege. Chekir and Diwan (2014) show that under Mubarak, politically allied firms captured disproportionate access to credit, land, and protected markets, and even benefited from subsidized energy, despite having lower productivity. These privileges distorted resource allocation, entrenched structural barriers, and limited the prospects for more inclusive growth. Similarly, Sabry (2020) connects cronyism in Egypt to weak governance, showing how the state's control over public credit, land, and natural resources allowed it to maintain subsidies as instruments of legitimacy while extending privileges to politically tied elites. These arrangements, sustained through subsidies and selective regulation, made reform politically risky and challenging to pursue. In this context, debates over subsidy reform in Egypt have always been shaped less by fiscal efficiency than by the regime's reliance on subsidies and elite favors to preserve stability and power.

Ketchley et al. (2024) argue that the 1977 Bread Intifada cannot be explained by poverty alone, since rioting was most pronounced in districts with higher concentrations of labor market insiders. These groups, anchored in state-led industrialization and reliant on welfare protections, mobilized when subsidy cuts undermined the foundations of their entitlements. The findings of Ketchley et al. (2024) emphasize that subsidy reforms spark varied reactions, shaped by institutional coalitions that determine who is protected and who is most at risk.

Overall, these studies show that Egypt's subsidy reforms are embedded in a broader political economy where fiscal policy, institutional capacity, and regime survival are deeply intertwined. Subsidies have functioned as instruments of social stability, channels of elite

privilege, and sources of contention when perceived as violating the social contract. This convergence of fiscal imperatives, equity considerations, and governance strategies forms the foundation for the analysis that follows, which examines reforms through fiscal-economic, social-equity, and political-governance perspectives and interprets them through four theoretical lenses: Neoliberalism, Welfare State Theory, Social Justice Theory, and Rational Choice Theory. Egypt's subsidy system is shaped by the interaction of domestic politics and global policy debates, with reforms influenced by historical legacies, external pressures, and shifting governance priorities.

Analysis

Fiscal Perspective: Analysis through Welfare State and Neoliberal Theories

The Welfare State Theory provides a relevant framework for analyzing why subsidies continue to exist in Egypt and the ways they have been restructured. Blau (1989) distinguished four broad theoretical approaches to the welfare state: the liberal consensus, the conservative, moderate, and radical perspectives. The liberal consensus, which was prominent after World War II, viewed welfare as part of a benevolent state grounded in pluralism, expert judgment, and gradual reform, with the notion of social citizenship adding a rights dimension. This consensus began to erode in the early 1970s amid critiques of pluralism, the myth of state neutrality, and growing economic stagnation, giving rise to competing theories. Conservatives argued that excessive welfare fostered dependency, undermined responsibility, and decreased productivity. Moderates in the 1970s and 1980s confronted fiscal constraints by proposing varied responses, ranging from warnings of middle-class backlash to calls for market discipline, greater citizen participation, and investment in human capital. Radical theorists, by contrast, viewed welfare as serving capitalism itself by regulating poverty, legitimizing the state, and stabilizing the labor force (Blau, 1989).

Korpi and Palme's (1998) "paradox of redistribution" underscores that universal welfare systems with broad coalitions are more successful at reducing poverty and inequality than narrowly targeted programs. Egypt's gradual shift from universal price subsidies to a targeted approach to subsidies improved government budget deficits and strengthened policy alignment with international donors such as the IMF, but diminished the universal symbolism that had historically sustained regime legitimacy (World Bank, 2017; Moerenhout, 2018). Research on Egypt shows that targeted reforms can leave vulnerable groups insufficiently protected or

inadequately covered (Thyen & Karadag, 2021), consistent with Korpi and Palme's (1998) argument that although targeted programs may appear efficient, they weaken broad-based coalitions and thereby undermine the long-term political sustainability of redistribution.

Neoliberal Theory places these developments within a broader ideological and policy shift. Davies (2014) describes Neoliberalism as an active and modernizing force that reshapes social and political life around market principles and competitive individualism. Within this framework, inequality is not treated as an accidental byproduct but as a recognized outcome of competition. Davies' (2014) analysis underscores that Neoliberal states actively reproduce conditions of competition, making inequality an inherent aspect of the system. Harvey (2007) critiques Neoliberalism as a political project designed to restore elite class power. Harvey (2007) frames this process in terms of accumulation by dispossession, accomplished through privatization, financialization, the manipulation of crises, and state-driven redistributions that channel wealth upward. It is critical to note that Neoliberalism has primarily functioned as a redistributive mechanism, transferring assets from the public to private elites. In this sense, Harvey (2007) emphasizes that Neoliberalism's greatest success lies not in revitalizing global accumulation but in reestablishing class dominance. Moreover, Birch (2015) underscores that Neoliberalism relies on an active state role in constructing and sustaining markets, rather than simply rolling back state power. Birch (2015) shows how Neoliberal reforms combine privatization, marketization, and commodification, illustrating the adaptability and diversity of neoliberal projects across different contexts.

Egypt's experience shows that reforms designed for fiscal efficiency often exacerbated existing inequalities and undermined social cohesion, while enabling regimes to consolidate authority through selective distribution and repression. These dynamics highlight how fiscal

imperatives and elite privilege intersected with authoritarian governance, setting the stage for the next perspective, the Social Equity Perspective, which, under the lens of Social Justice Theory, examines how subsidy reform shapes fairness, distributive outcomes, and the moral foundations of state–citizen relations.

Social-Equity Perspective: Analyzed through Social Justice Theory

An introduction to Social Justice Theory helps clarify how competing values of fairness are balanced within welfare economics. Fleurbaey (2019) provided a comprehensive framework for embedding fairness into policy evaluation by showing how welfare economics can incorporate utilitarian, egalitarian, and libertarian principles. Fleurbaey's (2019) approach underscores trade-offs between efficiency and equity, the ethical dilemmas of fairness in design versus fairness in outcomes. By extending the analysis to freedom and opportunity, Fleurbaey (2019) demonstrates that the social welfare framework remains flexible enough to capture competing conceptions of justice while addressing the priority of the worst off. This discussion resonates with Cohen's (1989) concept of equal access to advantage, which distinguishes between disadvantages rooted in brute luck and those arising from genuine choice, advocating that justice requires compensation for the former, not the latter.

Norman (2015) extends debates about justice into the institutional realm, demonstrating that governance structures within markets and firms are crucial to how economic systems function and how distributive outcomes emerge. Norman (2015) challenges the tendency to treat firms as abstract units, arguing that ownership and governance arrangements shape their efficiency, capacity for innovation, and their incentives to exploit or mitigate market failures. Norman (2015) further explores how deliberately adversarial institutions, such as competitive markets, generate tensions between profit-seeking norms and civic virtues, pressing theories of

justice to address how such institutions can be designed and regulated to sustain, rather than erode, egalitarian aims.

Building on Henry (2021), Gutner (2002), and Shehata (2018), the enduring symbolic weight of subsidies helps explain why distributive justice remains central to Egypt's reform politics. These expectations transform subsidy retrenchment from a technical adjustment into a profoundly political act, judged by whether the state upholds or abandons its distributive responsibilities. Henry's (2021) analysis of the 1977 Bread Riots shows how subsidy cuts were widely perceived as a violation of fairness and state obligation, a legacy that continues to shape public responses to reform today. Because subsidies have long represented the state's duty to safeguard dignity and basic well-being, their removal without credible alternatives risks reopening historical grievances and provoking resistance reminiscent of 1977. This dynamic remained visible in the post-2011 period, when support for redistribution surged from 22% to 59% (El Rafhi & Volle, 2020), reflecting both heightened civic engagement and a deepened expectation that the state protect vulnerable groups.

Viewed through the lens of Social Justice Theory, these dynamics highlight how Egypt's subsidy regime reflects the competing values that Fleurbaey (2019) identifies within welfare economics, including balancing efficiency with equity, which can be seen when a society seeks to give priority to the worse off, while also grappling with matters related to personal responsibility. Cohen's (1989) concept of *equal access to advantage* further clarifies the stakes, suggesting that justice requires protecting households facing involuntary disadvantage, such as structural unemployment, chronic illness, or geographic isolation from markets, while not necessarily extending the same protections to disadvantages rooted in avoidable consumption patterns.

These perspectives situate Egypt's subsidy reform within a broader justice framework that values equitable access to the material and social conditions of well-being, distinguishes between disadvantages within individual control versus those beyond it, and accounts for the institutional mechanisms through which distribution occurs. By linking distributive ethics to both policy design and governance structure, the social-equity perspective underscores that sustainable reform cannot rest solely on fiscal metrics; it must also be judged by its capacity to preserve fairness, protect the disadvantaged, and sustain the moral legitimacy of the state. This discussion leads directly to the next perspective, the Political-Governance Perspective, analyzed through Rational Choice Theory, which examines how governance capacity, institutional incentives, and elite interests shape the implementation and distributive impact of subsidy reform.

Political-Governance Perspective: State Capacity and Elite Capture in Rational Choice Theory

Rational Choice Theory (RCT) offers a valuable framework for analyzing Egypt's subsidy reform politics. While classical RCT assumes perfect rationality, complete information, and utility maximization, such models often fail to explain why cooperation emerges in situations where defection appears the most rational choice. Ostrom's (1998) work addresses this gap by showing how reciprocity norms, reputational incentives, and trust-building mechanisms can sustain cooperation well beyond standard predictions. By grounding RCT in extensive experimental evidence, Ostrom (1998) demonstrates that individuals frequently achieve outcomes beyond the predictions of standard rational choice models, challenging the adequacy of first-generation models and pointing toward the need for a second-generation approach. Ostrom's (1998) analysis highlights how structural variables and social norms interact, suggesting that

effective collective action is not solely the product of external enforcement but of endogenous mechanisms of reciprocity and trust that evolve within groups.

Rational Choice Theory (RCT) highlights the paradox of revolution, where free-riding seems the most rational choice, yet collective uprisings still occur. Courtois et al. (2024) analyze decades of debate showing that selective incentives, social norms, moral duty, and reputational concerns can lower participation costs and encourage some individuals to mobilize. The aforementioned factors help explain revolutionary commitment, but they do not fully resolve the paradox of revolution, since no single mechanism can account for why large numbers join despite the risks. Information gaps and bandwagon effects also show how private dissent can shift into open defiance and spread quickly (Courtois et al., 2024). Taken together, these insights suggest that a broadened rational choice framework, one that integrates social and informational dynamics, better explains both the fragility of cooperation and the possibility of sudden revolutionary escalation.

Applying this broader version of Rational Choice Theory to Egypt's subsidy politics underscores the interaction of material incentives, institutional constraints, and moral legitimacy. Based on Ostrom's (1998) insights into trust-based cooperation and Courtois et al.'s (2024) analysis of mobilization dynamics, a governance-centered perspective emerges that underscores how weak institutional capacity and entrenched interests can shape reform outcomes. From this perspective, sustainable subsidy reform requires more than institutional or economic adjustments; it also depends on rebuilding moral credibility in the eyes of citizens and reaffirming legitimacy as the foundation of state–society relations.

Egypt's experience exemplifies this point. Building on Ostrom's (1998) finding that communication and repeated interaction foster trust and cooperation, Egyptian leaders relied

heavily on discourse and reform framing as tools to sustain citizen confidence in distributive commitments. As Sabry (2020) argues, subsidies functioned less as fiscal instruments than as pillars of regime legitimacy within a broader landscape of cronyism and authoritarian rule. This helps explain why subsidies, particularly for bread and fuel, persist as moral obligations embedded in the state–citizen relationship rather than as policies driven solely by efficiency concerns. Henry's (2021) concept of fluid memory shows how the legacy of the 1977 Bread Riots continues to shape the boundaries of legitimate governance, constraining reform even when fiscal or geopolitical arguments are strong. Chekir and Diwan (2014) further demonstrate that entrenched cronyism and elite capture undermined perceptions of fairness and legitimacy, deepening public mistrust. As a result, the trust-based mechanisms that Ostrom (1998) identifies as essential to sustaining cooperation also became the foundation for collective resistance, as declining legitimacy redirected social solidarity away from the state and toward opposition.

Ethical Implications

The ethical dimension of subsidy reform in Egypt extends far beyond questions of fiscal solvency or budgetary balance. If structural flaws in governance and economic policy persist, their effects will cut deeply into Egypt's social fabric and political legitimacy. At its core, subsidy reform is an issue of distributive justice, raising fundamental questions about what segments of the population face the most significant burdens, who benefits, and by what standards state resources are allocated in a context already marked by entrenched inequality and limited political participation. How these distributive choices are made reveals not only economic priorities but also the moral character of governance and the extent to which the state acknowledges its social obligations.

From a social justice perspective, dismantling universal subsidies without credible and accessible compensation undermines both the legitimacy and sustainability of reform. Subsidized goods are more than economic instruments; they are symbols of state responsibility. Eliminating them without alternatives signals a policy orientation that prioritizes fiscal efficiency over basic needs, deepening social alienation and eroding public trust. Poorly designed reforms place uneven burdens across gender and geography. El-Hamidi (2016) shows that female-headed households, particularly those in rural Upper Egypt, are among the most vulnerable when energy subsidies are reduced, as they spend a larger share of their limited income on essential services and face significant mobility constraints. Many of these households are concentrated in areas of persistent poverty and informal agricultural employment, conditions that intensify their exposure to the costs of subsidy retrenchment. Belaïd and Flambard (2023) further find that more than one-third of fuel-poor households are located in rural Upper Egypt, despite the region accounting for just over one-quarter of the national population. This overrepresentation points to entrenched

spatial inequality and underscores the need for geographically targeted and gender-responsive approaches to subsidy reform.

Citizens also judge reforms by whether they are designed and implemented through inclusive processes. When public voice is excluded, moral authority weakens and compliance becomes more fragile. Evidence from rural Upper Egypt shows that food insecurity is closely associated with heightened anxiety and depression among women in low-income households, revealing how economic hardship compounds psychosocial vulnerability and undermines community well-being (Mahfouz et al., 2021). From an ethical standpoint, policies that erode dignity, harm health, or weaken family care fail a fundamental test of justice. Imposing adjustment costs on those least able to bear them is not only politically destabilizing but morally indefensible, underscoring the imperative for subsidy reform to protect human capabilities rather than diminish them.

Beyond immediate distributive concerns, intergenerational equity adds another layer to the ethical stakes. The continuation of inefficient subsidies diverts resources from sectors such as education, healthcare, and infrastructure, which are investments vital for future development and economic resilience. Failing to redirect these resources toward productive and inclusive ends effectively transfers the costs of present inefficiencies to those yet to come. Intergenerational inequity risks leaving subsequent generations with weakened institutions and reduced mobility. In a country already confronting high youth unemployment and demographic pressure, the state has an obligation to ensure today's policy choices expand, rather than constrain, future opportunities.

Ultimately, reforms that ignore equity, participation, and the protection of those most at risk jeopardize deepening inequality, eroding trust, and weakening social cohesion. Addressing

the ethical dimensions of reform is not an optional consideration but a moral imperative. A process that is transparent in design, inclusive in scope, and grounded in the lived realities of those most affected offers the most legitimate and sustainable path forward. Ethical principles must not follow fiscal goals; they must define them. When distributive fairness is subordinated to efficiency, the moral foundation of governance erodes, and reform becomes a vehicle for exclusion rather than renewal. The ethical dimension of subsidy reform lies in its recognition of shared obligation, the understanding that economic restructuring affects not just budgets but human lives, communities, and the collective sense of justice. To overlook this moral dimension is to reduce citizens to economic variables and to neglect the relational bonds that sustain public trust. Ethical governance, in this sense, is not measured by austerity or compliance but by the capacity of the state to preserve dignity amid change. In societies already strained by inequality, transparency and fairness are not rhetorical ideals but the very conditions upon which moral credibility depends.

Policy Recommendations

Reforming Egypt's subsidy system requires balancing fiscal stability with equity and public trust. Abrupt subsidy cuts, policy reversals, and deference to international lenders such as the IMF have marked past approaches. These approaches have deepened poverty and fueled unrest, often harming those least able to absorb the costs. To avoid repeating these mistakes, three core policy recommendations emerge: phase reforms through multiple stages, target gendered and regional vulnerabilities, and strengthen governance through transparency and participation. Taken together, these measures chart a path toward subsidy reform that is not only economically sustainable but also socially just.

Subsidy reductions should be implemented in stages to protect households from inflationary shocks and allow time for adjustment. Abrupt price hikes, as seen in 1977 and 2014, triggered public backlash and eroded confidence in reform. Timelines should be clearly communicated, and fiscal savings from subsidy cuts should be reinvested in social protection programs such as Takaful and Karama, which provide support to low-income families, elderly adults, and people with disabilities. Because inflation erodes the real value of cash transfers under programs such as Takaful and Karama, benefits should be indexed to inflation to safeguard purchasing power and ensure continued effectiveness. As Breisinger et al. (2019) argue, pairing subsidy reform with robust social protection is essential to mitigate short-term harm and build public trust.

Consistent with findings from El-Hamidi (2016) and Mahfouz et al. (2021), women and rural households face disproportionate burdens from subsidy cuts due to lower labor force participation, informal employment, and geographic isolation. Reforms should therefore include gender- and regionally responsive mechanisms, such as expanding subsidized credit for rural

women, linking cash-transfer amounts to household size and composition, and introducing regionally weighted transfer formulas that direct more resources to governorates such as rural Upper Egypt, where fuel poverty is concentrated. These actions would not only provide a buffer for vulnerable households against rising costs but also support women's economic participation and strengthen rural livelihoods.

Subsidy reform must also address governance deficits identified by Chekir and Diwan (2014) and Sabry (2020), including elite capture and weak accountability. Effective reform requires clear communication strategies explaining both the rationale for subsidy changes and how the government will reinvest fiscal savings. The government can enhance transparency through regular public reporting on subsidy expenditures and leakages, verified by independent audits. Public engagement mechanisms, such as open forums, grievance channels, and participatory consultations, should be institutionalized to ensure citizens have a voice in shaping policy and monitoring implementation. These measures would not only build trust but also improve reform effectiveness by aligning state action with public priorities. Beyond their technical function, transparency and participation are ethical obligations that reinforce the legitimacy of reform. When citizens understand how decisions are made and where resources are directed, accountability becomes shared rather than imposed. This openness helps counter the perception that reform serves narrow interests and instead frames it as a collective endeavor tied to national development.

Together, these recommendations emphasize that subsidy reform must do more than close fiscal gaps. Reform is not merely a question of economic design but a test of governance, justice, and state credibility. Phased implementation can prevent destabilizing shocks, targeted measures can reduce inequality and enhance resilience, and transparent governance can restore

confidence in the state's distributive role. Collectively, these priorities can transform subsidy reform from a source of instability into a foundation for equity, legitimacy, and sustainable development. Achieving this outcome will require sustained political will and a recognition that fiscal policy is inseparable from its human and ethical dimensions. Sustainable reform depends not only on technical precision but also on the restoration of moral credibility in public life. Citizens must see that the burdens of reform are fairly shared and that the benefits of recovery are equitably distributed. When transparency, participation, and justice converge, fiscal policy becomes an instrument of collective renewal rather than an exercise in austerity. Grounded in these principles, subsidy reform can move beyond short-term adjustment and take shape as a lasting social contract, one that brings economic rationality into balance with moral responsibility, aligns national policy with the lived aspirations of society, and strengthens the enduring bond between citizens and the state.

Summary

Beginning in the aftermath of the 1952 revolution, subsidies became embedded in Egypt's social contract, operating both as tangible support and as a symbol of state protection. After Nasser died in 1970, successive leaders pursued privatization initiatives and subsidy reductions, often under pressure from international institutions such as the IMF, which tied financial assistance to reform. The 1977 Bread Riots, triggered by steep price increases after Sadat drastically reduced subsidies, underscored the profound social and political significance of subsidies in Egyptian society. More recently, the 2014 subsidy reforms under President El Sisi reduced fuel and electricity subsidies for many Egyptians who were already grappling with poverty. While the 2014 subsidy cuts improved the national budget balance, they also accelerated inflation, increased food and transport costs, and placed heavier burdens on impoverished and rural households. Social protection initiatives such as the Takaful and Karama cash transfer programs partially offset these effects, yet the continued erosion of real purchasing power has further entrenched poverty and inequality.

A clear pattern emerges throughout the literature assessed in this paper. Equity has been central to Egyptian society since the Nasser-era social contract, and the effectiveness of subsidy reform cannot be separated from this legacy. After the 2011 Arab Spring, public support among Egyptians for redistribution rose as claims for dignity and protection continued. However, the benefits of reform remain uneven, with rural populations and gendered vulnerabilities especially stark. These households spend a larger share of their limited income on electricity and transportation, often while lacking stable employment opportunities, leaving them highly exposed to price shocks. This vulnerability is especially pronounced in rural Upper Egypt, where poverty is more profound and education levels remain low. It is also critical to note that food

insecurity carries psychosocial costs, including maternal distress. In addition, climate change has been placing a strain on Egypt's agricultural sector, thus leading to a high reliance on imports of inelastic goods such as wheat and other commodities.

This analysis reflects three core perspectives examined in this paper. The fiscal–economic perspective, grounded in Welfare State and Neoliberal theories, helps explain both the persistence and restructuring of subsidies in Egypt. While universal subsidy programs historically sustained regime legitimacy by signaling state responsibility for citizens' basic needs, the shift toward structurally targeted subsidies improved fiscal efficiency by narrowing the scope of disbursements. However, this transition also left many vulnerable households without adequate support, exposing them to fragility and gaps in coverage. Moreover, market-oriented reforms undertaken within an authoritarian political system reinforced inequality and elite privilege, even as budget balances improved. The social-equity perspective, grounded in Social Justice Theory, highlights the moral dimension of subsidies and the imperative to balance fiscal goals with protection for those most at risk. The political-governance perspective, in turn, emphasizes that public support for subsidy reform depends on whether the process is viewed as legitimate, transparent, and backed by credible commitments. When reforms are perceived as unjust or exclusionary, the trust essential for compliance erodes, and societal resistance intensifies.

This paper recommends three policy reform initiatives. First, subsidy reductions should be implemented gradually to protect households from inflationary pressures and other economic shocks. Transparent timelines reduce uncertainty by communicating when and how subsidy cuts will occur, giving households and businesses time to adjust proactively. In addition, indexing social funds to inflation preserves their real value by ensuring that benefit levels rise alongside

prices rather than eroding over time. Gradual sequencing also allows the government to evaluate short-term welfare effects and recalibrate programs in response to emerging vulnerabilities. Complementary public awareness campaigns can enhance understanding of reform goals, reduce misinformation, and improve compliance. Establishing monitoring systems that track inflation-adjusted purchasing power, especially among low-income and rural households, ensures that compensation measures remain effective and credible.

Second, future subsidy reforms must prioritize equity by adopting policies that directly address gender disparities and the disadvantages faced by rural populations. Targeted cash transfers from subsidy savings should be directed toward rural communities and female-headed households, where vulnerabilities are most acute. By directing support where vulnerabilities are most significant, reforms can reduce social tensions and build greater public trust in government policy. In addition, reforms should incorporate gender-sensitive data collection and monitoring systems to evaluate their distributive impacts over time. Expanding access to affordable credit, vocational training, and childcare support can empower women economically, while rural infrastructure investments, such as transportation, irrigation, and market access, can strengthen local resilience. Together, these measures ensure that subsidy reform contributes not only to fiscal balance but to social inclusion and long-term poverty reduction.

Third, governance mechanisms must be strengthened to restore both procedural and substantive fairness. Public communication should clarify the rationale for reforms, explain how savings are used, and outline mechanisms through which citizens can voice grievances. Independent audits, transparent publication of leakage and savings data, and structured channels for citizen feedback can strengthen accountability and enhance public trust. In addition, coordination between ministries, local governments, and civil society organizations should be

institutionalized to ensure consistent implementation and monitoring. Clear lines of responsibility, coupled with periodic public reporting, can deter corruption and enhance transparency. Ultimately, accountability is not merely administrative; it is relational, requiring an ongoing dialogue between the state and citizens that reinforces legitimacy and collective ownership of reform outcomes.

This paper argues that the ethical foundation of reform rests on equity and trust. Since the Nasser era, subsidies have embodied enduring social commitments, shaping the state–citizen relationship and symbolizing protection, fairness, and stability. Future reforms that combine fiscal consolidation with transparency while safeguarding the most vulnerable can advance inclusive development. The question is not whether reform should occur, but how it is designed and implemented. Aligning fiscal responsibility with equity and transparency allows the state's distributive role to evolve without eroding the moral economy that underpins Egyptian society. In doing so, reform can move beyond short-term fiscal adjustments to establish sustainable subsidy systems and savings programs that advance equity and long-term development, ultimately strengthening public legitimacy and reinforcing the ethical foundations of governance.

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