

## **Chapter One**

### **Statement of the Problem and Background**

#### **Introduction**

Many argue that the increase in market-mediated exchanges on a global scale is accompanied by a decrease in the sovereignty and efficiency of individual states, particularly in the peripheral countries (Sklair 1999, 1995; Robinson 2001; Gilpin 2001; Waters 1995; Amin 1998, 2001; Globalization Challenge Initiative 2002). Governments in these countries face an increasing pressure, generally thought to be the result of global competitiveness, to relax their labor, tax, environmental, and social regulations. Growing widespread reliance on the global market has been accompanied by the rise of Reaganism and Thatcherism in the early 1980s, and by the dominant role of neo-liberalism in both the economic and the political domain. Structural adjustment policy, enforced by the Washington twins – i.e., the International Monetary Fund (IMF), the World Bank (WB) – and other creditor governments, has been the main mechanism for achieving globalization and free-market policy. This policy includes trade and finance liberalization, privatization and sale of public sector and national industries, currency devaluation, and new taxation policies.

As Pergher (Online) asserts, “one of the major state institutions threatened by global economic forces and structural adjustment policies is the modern welfare state,” which has sought to minimize poverty and inequalities of wealth while providing for

basic needs that would not be met by a free market economy. In addition, state-led import-substituting industrialization has been dismantled to a great extent since application of structural adjustment policies. In this regard, the purpose of this study is an examination of how the Egyptian state and its relationships with various Egyptian social sectors were transformed by such externally-imposed neoliberal practices during the 1990s.

Just like many other newly-independent postcolonial states in the early 1950s, Egypt adopted a state-led growth policy, through which it actively intervened in industrial activities to promote the nation's welfare and the development of the state. By applying this policy, Egypt's Nasser achieved real industrial and economic development and subsidized far-reaching social services for the majority of the poor. This kind of interventionist state, called the "*etatist* system," is "characterized by the classic duality of roles taken on by a modernizing state [:] ... the welfare and the developmental roles" (Wahba 1994: 20). Since it instituted the *infitah* (open door policy) in 1974, and particularly after the 1977 bread riots, the Egyptian state has relied on a subsidization process and social welfare programs, rather than on economic and industrial development, as methods of maintaining legitimacy and satisfying the material needs of the populace. These programs have targeted the majority of Egyptians, but especially the most vulnerable groups. The main aim of Sadat's regime during the 1970s was to maintain political stability, avoiding any political unrest such as that of 1977; the essential tool for this purpose was the widespread policy of subsidization and welfare

services.

This study focuses mainly on the economic and political transformations of the Egyptian state after it applied structural adjustment policies on May 17, 1991. The current study demonstrates how the Egyptian state has been changed and transformed from the *etatist* system of Nasser and from Sadat's quasi-*etatist* system. The key hypothesis guiding this study is that the application of structural adjustment programs has been a factor powerfully transforming the *etatist* systems of Nasser and Sadat.

### **Historical Context**

On May 17, 1991, the Egyptian state under President Mubarak (1981- ) implemented structural adjustment and privatization programs which have resulted in extensive economic and social changes. These policies displaced the political and economic policies of the former socialist regime under Nasser (1952-1970). Since the revolution of 1952, Egypt has undergone several radical political and economic transformations. Starting with the 1952 military *coup d'etat*, the new system overhauled the economy, impacting the entire society. Adopting a planned-economy approach, Egyptian officers established a public sector, massive nationalization, and a widespread process of income redistribution accompanied by many social policies (Oncu et al. 1994: 27-29; Kanovsky 1997; Aulas 1988; McDermott 1988: 78-79; Waterbury 1983:134; Beattie 1994; Harik 1984). According to the Economist (October 25, 1997):

Land reform was the first act in a radical reshaping of Egypt carried out first by the army-dominated regime of President Gamal Abdul Nasser. Rent controls in cities, the nationalization of industry, free education and health care, subsidies on staple foods, and a guarantee of state jobs for university graduates all made the revolutionary government of the 1950s and 1960s widely popular. Egypt became a leader and model for the newly independent nations.

After the revolution, Nasser's regime adopted a socialist system that depended on a broad coalition of farmers, workers, and segments of the middle class, including students, intellectuals, technocrats, and officials. This wide-ranging coalition was the vital mechanism for supporting and legitimating the new regime against old classes, particularly landlords. Nasser confiscated a large number of private enterprises, and redistributed nationalized and sequestered land among landless farmers. At the same time, Nasser's regime had a strong relationship with the former USSR and a mutually antagonistic relationship with the United States (Kerr and Yassin 1982: 286; Mabro and Radwan 1976: 39).

On the economic and social level, the Egyptian state allocated funds for the basic needs of its citizens, such as food, housing, transportation, medical care, and education. On the one hand, this reflected a state commitment to serve the interests of the poor and the middle class. On the other hand, Nasser's regime operated as a *patron state* that held sweeping hegemony over economy, politics, culture, and even the press (Chhibber 1997: online). In the economic sphere, for example, the state established and owned enterprises which operated not according to market demand, but rather according to the dictates of an elaborate system of central planning; these enterprises also were required to serve social

welfare functions (Harik 1997; Harik and Sullivan 1992).

Although Nasser established many projects to develop agriculture, industry, and education, his regime was authoritarian. From the beginning, military officers under Nasser's command enforced his rule, eliminating all political parties and controlling the press. In short, there was only one voice – Nasser's.<sup>1</sup> Goldschmidt argues that Nasser's regime began as a nationalist revolution with no general ideology; "Nasser was essentially pragmatic; he deliberately shaped his program around the needs of the moment" (Goldschmidt 1988: 115). Despite this critique, Nasser's regime was one of the most influential models, not only for the Arab countries, but also for other newly-independent countries.

Amin (1994) emphasizes the pivotal role of international forces, especially the core powers, in determining Egyptian development policy since the 19<sup>th</sup> century. He describes international conditions as the major force behind the shift in Egypt's economic and foreign policies after the collapse of Mohammed Ali's ambitious developmental project in 1840, and again after the death of Gamal Abdel-Nasser in 1970.<sup>2</sup>

Between 1970 and 1981, President El-Sadat focused on the development of *infitah*, which aimed at establishing strong relationships with the West in general and with the United States in particular. The Egyptian state opened the economy to external

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<sup>1</sup> Bikar asserts the central role of the army in the Arabic world, particularly as an instrument of ascendancy and repression (Bikar 1986: 529-555).

<sup>2</sup> The main difference between Ali and Nasser is that, while the former was an Albanian soldier-adventurer who had personal aspirations for himself and his dynasty, "Nasser was, by contrast, perceived by ordinary Egyptians as being one of them, and this was fundamental to the emotional support which he received.

imports and foreign investments, and expanded the private sector. According to Kerr and Yassin (1982: 8), this led to inequitable income distributions, inadequately funded governments, insufficient labor supplies, and reduced agricultural production in Arab countries that adopted *infitah* practices. Ultimately, many public services, such as low-cost housing, education, and transportation infrastructure, were either eliminated or seriously curtailed (Halabi 1998: 12). This does not mean that the subsidizing role of the state was completely eliminated; on the contrary, it played a major role during the *infitah* era, as a guarantee of social and political stability during Sadat's regime.

The *Infitah* integrated Egypt more deeply into the world economy, and it shifted its political ties away from the former USSR and the socialist bloc toward a new relationship with the United States. Several political and economic changes stimulated this transformation toward an open-door policy, particularly the oil boom, migration of Egyptian laborers to the Arab oil countries, the Egyptian-Israeli peace, and the emergence of movements oriented toward the "Islamization of the private sector" (Harik and Sullivan 1992: 56).<sup>3</sup> The *infitah* policy changed the socio-political matrix of the Egyptian class structure. While landowners, traders, and businessmen gain from the *infitah*, peasants, workers, bureaucrats, and the productive segments of national capital mechanisms lost (Abdel-Khalek 1982: 278).

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Moreover, he was able to build on it" (McDermott 1988: 23; see also Ayubi 1992; Beattie 1994; Harik 1984; and Waterbury 1983).

<sup>3</sup> For more information on the migration of Egyptian laborers to Arab oil countries, see Kerr and Yassin (1982: 17-70). See also in this article the impacts of this labor migration on the Egyptian state (53-54). For a further consideration of the politicization and Islamization of institutions such as professional syndicates since the 1980s, see Ismail 1995 and Kandil 1994.

Under the *Infitah* policy, Egypt became more involved in the international market, developing strong relationships with the United States and other international institutions, including the International Monetary Fund and the World Bank. Despite increased foreign aid, petroleum revenues, and emigrant remittances, Egypt faced growing debt and pressures from external creditors. Butter (1989: 127) identifies several factors that drew Egypt into heavier debt, including “the shift from the Soviet Union to the US as the main source of military procurement after the October 1973 Arab-Israeli war ... the substantial investment made in infrastructure projects ... the inability of agricultural production to keep pace with the rise in population, and oil wealth and vested interests.” Consequently, the open-door policy had several negative impacts on the Egyptian economy, including rising prices, increased imports, growing debts, and mounting corruption. The middle class and the poor suffered from the deterioration of these economic conditions more than any other social class or group in Egypt.<sup>4</sup>

By the beginning of the 1990s, Egypt was fully involved in many agreements with the international institutions and other creditor governments, which has led to the application of structural adjustment policies. When he became president after Sadat’s assassination in 1981, Mubarak tried to resist the pressure, exerted by the International Monetary Fund (IMF) and the World Bank, to implement new structural adjustment policies.

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<sup>4</sup> In his 1989 book, Butter thought that the IMF/ Paris Club arrangements had been a triumph in that the Egyptian government had secured reasonably soft terms for coping with the debt problems. We should bear in mind that Butter’s book was published during the early stages of the negotiations between Egypt

As one might expect, these policies included economic changes, such as currency devaluation, an increased emphasis on exports, forced reduction in import tariffs, increased indirect taxes, a freeze on wages, and a reduction in domestic credit extension. In addition to these economic considerations, these policies also influenced the internal workings of the government, by forcing civil service retrenchment, and restructured many domestic policies, including a reduction in food subsidies, an end to state-enforced price-fixing, a massive scaling back of educational and health programs, and a reduction in state-owned industries.

In addition to these procedures, the government also increased the prices of public services such as transportation, raised the prices of electricity and fuel, decreased or eliminated governmental economic support for commodities, and moved quickly to privatize the public sector (Ali 1994:192; Kanovsky 1997; Welch 2000; Woodroffe and Ellis-Jones 2000).

### **Structural Adjustment and Privatization: Literature Review**

Structural adjustment programs have become a problem for less developed countries and international creditors alike. Killick (1995: 318) discusses the political and economic nature of the difficulty. He demonstrates that “adjustment is as much a problem of political management as of economic design, requiring all the skills and resourcesfulness of political leadership. A coalition for reform has to be assembled and

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and the international institutions. Now, after 13 years, and under the harsh pressure from these organizations, Egypt finds no choice but to accept these conditions of the IMF and the World Bank.

returned. Precisely how policies are reformed, and the speed and sequencing of the changes may involve delicate political calculation. Compromises must frequently be struck.”<sup>5</sup>

To analyze the relationship between politics and economy, most of these studies are based on empirical cases. Barkey (1992), for example, studies seven Middle Eastern countries (Algeria, Egypt, Israel, Jordan, Syria, Tunisia, and Turkey). Haggard and Kaufman (1992) use a sample of 23 cases, including most of the countries in East and Southeast Asia and Latin America, as well as several important African cases. Harik and Sullivan (1992) focus on privatization in the Middle East and North Africa.

One of the most important and debated issues with regard to structural adjustment programs and privatization is the external pressure that both the IMF and the World Bank exert on governments in less developed countries. Nelson (1989:29) argues that “aid donors, creditors, and international financial institutions should accept a gradualist approach to stabilization, realistically assess the financial implications of such gradualism, and support phased structural reforms that reduce political risks to new democratic leaders” in those developing countries that have serious internal economic and political problems. Killick (1995: 306) goes farther than Nelson in his criticism of the IMF, demonstrating that “many doubt whether IMF’s response has yet moved far enough to prevent Structural Adjustment Programs from impoverishing the poor.” El-Ghonemy (1998: xvi) claims “the extent of poverty, hunger, illiteracy and income

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<sup>5</sup> See also Barkey 1992; Nelson 1990; Haggard and Kaufman 1992; Nelson 1989; Niblock and Murphy 1993; Springborg 1989; El-Ghonemy 1998; Scott 1998.

inequality is greater in the mid-1990s than it was in 1980, before economic reform.”

Hatem (in Sparr, 1994: 56) concludes that privatization programs required by structural adjustment generally have not helped Egyptians’ living standards.

These studies also investigate the degree to which national/internal factors determine the structural adjustment process in less developed countries. These national factors include the government/state and other groups in society, especially the poor and interest groups. According to Killick (1995: 318), “structural adjustment programs are politically sensitive because of their considerable impact on income distribution. The policies which need reform are not accidental, nor are they the outcome of purely technocratic consideration; they also reflect the distribution of power and influence.”

In the less developed countries, the state is the pivotal actor in the implementation of any structural adjustment program.<sup>6</sup> According to Chhibber (1997: online), “the state is not a luxury instrument, but an essential necessity, without which there can be no development, economic or social.” Ayubi focuses on the role of the presidential institution in Egypt, not only in politics but also in the economy. He argues “the Egyptian system of government is in a period of transition, which, among other things, is characterized by a number of contradictions. While in principle a policy of economic and political liberalization is being promoted, the presidency remains dominant – even in economic matters” (Ayubi 1989:1). Sadat, for example, held the following official posts: President of the Republic, Prime Minister, Supreme Commander of the Armed Forces,

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<sup>6</sup> See Springborg 1989; Harik and Sullivan 1992; Killick 1995; Barkey 1992; Nelson 1990; Niblock and Murphy 1993; Richards and Waterbury 1990; McFaul 1995; Oncu et al. 1994.

Higher Chief of the Judiciary, Head of the National Democratic Party, and the Commissioner of all military and economic matters and accords touching on the national security. Similarly, Ayubi describes Mubarak's regime as a *mélange* of powers derived from the legacy of Nasser's socialist regime and from Sadat's open-door-policy regime (Ayubi 1989: 2-3).

Other studies analyze structural adjustment programs in technical terms. As Sullivan (1994: 55) contends, "what is most important for development in Egypt is not whether the government is involved or whether the private sector is best equipped to promote development. The essential elements of development are capital, labor, and technology, all of which must be mobilized and coordinated – that is, managed properly – to enhance production, provide jobs, and satisfy local demand." A few studies focus only on one dimension of structural adjustment programs. Henry (1996), for example, analyzes the structural power of commercial banking systems in five Mediterranean countries. Singerman and Hoodfar (1996) highlight the role of the household in the political economy, social structure, and political life of Egypt. In contrast to Sullivan (1994), who describes "the extra state actors" involved in economic reform, Abdel Monem Said Ali examines privatization in Egypt in terms of two regional dimensions – the oil revolution and the Egyptian-Israeli peace:

[The] regional environment has generated incentives and disincentives for privatization. The oil revolution created resources for the Egyptian private sector and increased its linkage with transnational capitalism.... The Egyptian-Israeli peace has loosened the grip of the state.... The Peace Agreement also provided Egypt with substantial Western aid, the donors of which are pressuring the government of Egypt for more privatization.

(in Harik and Sullivan 1992: 56)

In his analysis of privatization in Egypt, Sullivan (in Harik and Sullivan 1992: 25) focuses on what he calls “extra-state actors,” those external institutions and internal groups other than the Egyptian state that shaped the process. He concludes that the government faces a coalition of internal and external forces that are pushing it to relinquish its control of the economy (1992:41). Particularly relevant to the current study is Sullivan’s integration of both internal and external factors involved in the complex network of relationships, between the Egyptian state and other actors at the national and international level.

### **Theoretical Framework: The *Etatist* State**

We must first come to a definition of the *etatist* system, and an understanding of the differences between it and other theoretical concepts of the state. Mann (1993: 314) delineates four structural elements which characterize a state:

1. *A differentiated set of institutions and personnel embodying*
2. *Centrality* in the sense that political relations radiate outwards from a centre to cover.
3. *A territorially demarcated area*, over which it exercises
4. A monopoly of *authoritative binding rule-making*, backed up by a monopoly of the means of physical violence.”<sup>7</sup>

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<sup>7</sup> Mann (1993: 314) contends that, “the state is undeniably a messy concept. The main problem is that most definitions contain two different levels of analysis, the ‘institutional’ and the ‘functional.’ That is, the state

There is one additional structural element which typifies an *etatist* state, but not other types. The word “*etatism*” is derived from the French *etat* (state) and denotes a situation in which the state takes an active and permanent part in economic affairs. In addition to this active and permanent role in the economy, the state plays an effective role in welfare programs (Okyar 1965: 98). In an *etatist* state:

The government maintain[s] a degree of control over domestic markets. It employ[s] direct or indirect price support policies for a number of agricultural commodities. Prices of some industrial goods [a]re controlled, as [a]re wages in supported industries. And interest rates in financial transactions and banking activities [a]re fixed (in principle) by central authorities. The most conspicuous feature of the *etatist* policies [i]s the emergence of the state as a major producer and investor (Hansen 1991: 323).

Wahba (1994: 20) dates the *etatist* system in Egypt back to 1957 when the national government assumed the dual roles of welfare and development. The *etatist* system is a more appropriate concept with which to understand the Egyptian state than the “populist” or “bureaucratic-authoritarian” images of the state. He (1995: 17-20) asserts that while the concept of the populist image is useful for a description of the political and ideological superstructure of the state, it does not take into account the economic role of the state. Although the authoritarian-bureaucratic concept refers to the hegemonic role of the state in the political domain and to the character of the economic system, it ignores the state as an important actor in social development and welfare programs:

The Bureaucratic Authoritarian state represents the ultimate triumph of the

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can be defined in terms of what it looks like, institutionally, or what it does, its functions. Predominant is a mixed, but largely institutional, view put forward originally by Weber.”

state over society...In Latin America; the Bureaucratic Authoritarian states had initial autonomy because of the class conflict and the economic failures of previous regimes. By deactivating and depoliticizing the popular classes the Bureaucratic Authoritarian state restored law and order and thus enhanced its autonomy to implement long-term economic and political changes. (Barkey and Parikh: 534)

In comparison to these conceptions of the state, the concept of the *etatist* system facilitates my analysis in two ways. First, it highlights the extent of the state intervention in economy, development, industry, and finally in social development of the majority of people; in a word, it helps to demonstrate the capacity of the state in achieving its developmental and welfare policies. Second, it helps in evaluating the Egyptian state in regards to its “sovereignty” – “the highest, final, and supreme political and legal authority and power within the territorially defined domain of a system of direct rule” (Morris 1998: 178). This study, in dealing with the impacts of the structural adjustment policy, considers the dialectic relationship between economic changes and the political impacts of those changes. Thus, state sovereignty here implies both the economic and political aspects.

### **The Investigative Approach and Sources**

The current study examines whether the *etatist* Egyptian state has been, or is in the process of being, dismantled and, if so, what are the political and economic consequences? To achieve this goal, this study examines characteristics of the Egyptian state, before and after the application of structural adjustment policies, to determine what has been changed in regard to the *etatist* system, and how the Egyptian state has been

affected during the 1990s. This study investigates the degree to which 1990s structural adjustment policies have destroyed the *etatist* Egyptian state that was initiated in the 1950s during the Nasser regime. I will explore four questions:

1. How did Egypt's *etatist* state emerge and change between 1952 and 1991?
2. What are structural adjustment policies and privatization? How have they been implemented internationally?
3. How have structural adjustment and privatization policies been implemented in Egypt since 1991? To what degree has Nasser's agenda of two-pronged development been displaced by subsequent structural adjustment policies? How have structural adjustment policies changed the Egyptian state since 1991?
4. What have been the social impacts of structural adjustment on the Egyptian population?

This is a descriptive historical analysis which draws primarily on secondary sources, with support from several Egyptian government documents and from research from international organizations.<sup>8</sup> Through secondary sources, governmental documents, and newspapers, this study explores how the Egyptian state has changed policies that affect the interests of the majority of the poor and the middle class in Egypt. To assess the social impacts on Egypt's population, I relied on statistical data from a variety of intergovernmental organizations.

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<sup>8</sup> Harik (1997), Wahba (1994), Springborg (1989) Waterbury (1983), and Abdel Khalek and Tignor (1982) are particularly useful secondary studies upon which I drew heavily.

## **Format of the Study**

Chapter 2 examines the *etatist* system in Egypt during the Nasser and Sadat eras. Chapter 3 describes the application of structural adjustment policy, and its impacts on developing countries. Chapter 4 describes how structural adjustment policies have transformed the role of the Egyptian state since 1991. Chapter 5 examines in detail the social impacts of dismantling the *etatist* system. Chapter 6 serves as a summary and conclusion.