

Chapter Six

Summary and Conclusion

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. The most conspicuous feature of *etatism* is the state’s role as a major producer and investor. This study has examined how the implementation of structural adjustment transformed the Egyptian state from what was, until 1991, an *etatist* and quasi-*etatist* system characterized by its goals of economic development and promotion of social welfare. In its externally-forced pursuit of neoliberal policies, the “post-*etatist*” state has withdrawn considerably from ownership of business enterprises, from subsidizing food and other basic goods, and from provision of health and other social services. This chapter summarizes the most pertinent elements of the descriptive historical narrative presented by this study.

The Egyptian *Etatist* System, 1952-1991

From 1952 until the implementation of structural adjustment in 1991, the Egyptian state played a continuous and effective role in both the development process and social welfare programs. While it played both of these roles under Nasser’s *etatist* system, it focused primarily on welfare policies under Sadat’s quasi-*etatist* system. From 1952 until the application of structural adjustment policies, the Egyptian state had the upper hand over other social sectors in both the economic and political domains. The

private sector played a weak role in the Egyptian economy and did not significantly participate in political activities.

Under both Nasser and Sadat, the state was able to create loyal coalitions, supporting some groups at the expense of others. The Egyptian state under Nasser allied with a wide, populist political coalition, based on the working class, the middle class, and the peasantry. Conversely, Sadat's regime was composed of a wide coalition of compradors, members of the nouveau rich, old bourgeoisie, and landlords, who had been injured by Nasser's policies of confiscation and sequestration. After the application of structural adjustment policies, the Egyptian state continued its dependence on the classes and interest groups of the *infitah* era, offering more support to new businessmen and foreign investors. In these three historical periods, the state's economic practices shaped the nature of its political coalitions and its relationships to different social classes and interest groups.

From the 1950s through the 1980s, the *etatist* system played an effective role in promoting industrialization and a high rate of economic growth. Even when the state drew back from its economic development policies, its main role of providing social welfare continued, lending support to the most vulnerable groups. This process occurred primarily during the 1970s and 1980s. During these decades, the Egyptian state depended heavily on external loans and other income sources such as oil, tourism, the Suez Canal, and remittance revenues to cover its widespread subsidization policies. The main aim of the Egyptian state was not so much to support the poor, but rather to maintain political stability and avoid a reprise of the 1977 bread riots. Thus, the state's

support of subsidization during the 1970s and 1980s was for political, not social and economic, reasons.

In general, states in developing countries have used their economic power to play leading roles in income distribution among different social classes and interest groups. This process has affected the distribution of political power between these classes. For example, under Nasser's regime, the Egyptian state's populist policies – which were aimed at supporting the most vulnerable groups – transformed the national distribution of power and benefited most poor people. On the other hand, since the application of structural adjustment policies, the state has chosen to support and encourage the private sector and foreign investments at the expense of the most vulnerable groups in society. Regardless of which interest groups the state chooses to support, the rise of these groups reflects considerable changes in state-society relations. Although the state tends to be the dominant actor in most developing countries, its ability to act depends on specific social coalitions, which change from time to time. For example, structural adjustment policies have led the state to build and develop strong ties with emerging economic elites in many Arabic countries, including Tunisia, Morocco, Oman, Egypt, Jordan, Kuwait, and Yemen.

The main difference between the Nasser and Sadat *etatist* regimes is that the former tried to balance economic development – pursued through an import substitution industrialization strategy – with support for the most vulnerable groups. Conversely, the latter focused on welfare policies at the expense of developmental strategies, turning to an export-led economic growth strategy. This process of subsidization was dependent on

external resources, such as oil, tourism, the Suez Canal, and remittance revenues. Because of this insecurity, the *infitah* policies of the 1970s and 1980s led to heavy dependence on unsecured resources and over borrowing from other governments and international financial organizations such as the IMF and the World Bank. In this regard, the *infitah* policies reintegrated the Egyptian economy with the global economy, making it vulnerable to pressure from the international financial institutions. This directly led to the Egyptian state's acceptance of neoliberal prescriptions for structural adjustment.

Using the *etatist* system as a basic concept for understanding the Egyptian state since 1952 aids comparison among the historical periods that followed, especially with regard to the two distinguishing components of this system: development and social welfare. In addition, while *etatism* helps to explain economic and political transformations that have occurred since 1952, other concepts, such as the "populist" or "bureaucratic-authoritarian" state, only describe fractions of these historical transformations. For example, the concept of "populism" only helps to explain the populist character of Nasser's regime in the early 1950s, but fails to account for the economic character of the regime. By focusing on Nasser's ideological and political characteristics, it neglects his economic policies. The *etatist* concept describes the state as a leading actor in both the economy and social welfare.

Structural Adjustment since 1991

With the extensive and intensive application of structural adjustment policies in Egypt in 1990s, the *etatist* system of Nasser and Sadat lost its developmental and welfare

agendas. As a tool of neoliberal globalization, structural adjustment programs are intended to direct states in developing countries toward greater involvement in the global economy. The application of these policies in developing countries reflects deepening relationships among the state, international institutions such as the IMF and the World Bank, and creditor governments such as the United States, Japan, and Western European countries.

Thus, structural adjustment policies have been the primary instrument that neoliberalism's promoters have used to force developing countries to loosen their restrictions upon foreign investments and to decrease the economic role of the state. The central aim of these new policies was to reduce the intervention of the state in the economy, especially with regards to financial activities and production. Thus, the slogan of structural adjustment has been "less state, more market" (Quiroz 2001: 10).

The application of structural adjustment policies, through both their short term macro-economic stabilization phase and their structural reform phase, highlights how global changes have played a crucial role in reshaping the structure of these states. By intensifying relationships between internal and international elites, structural adjustment has benefited certain groups at the expense of the majority. Such policies have affected most developing countries, including those in Latin America, Asia, and Africa, typically leading to economic deterioration. These policies have led to higher basic goods prices, increased imports, growth of debt, and an expansion of corruption. On the other hand, these policies have also promoted poverty, illiteracy, income inequality, malnutrition, and accelerated deterioration in living conditions for the majority of poor people.

Furthermore, structural adjustment policies have reduced the sovereignty and efficiency of individual states in developing countries. This erosion of state sovereignty has allowed international institutions to impose their policies, regardless of their domestic impact. Structural adjustment policies have weakened the autonomy of developing countries; their once-sovereign states are no longer allowed to design and implement their own economic policies. While this has strengthened new classes, such as new businessmen and other interest groups, it has had a devastating effect upon the general population. This has caused the introduction of a new role for developing states: that of pacifier, assigned the task of minimizing negative impacts of structural adjustment to avert riots and demonstrations. Rather than supporting democracy in developing countries, structural adjustment policies have forced most of these countries to depend on their security forces, such as the army and police. These state apparatuses take on the job of defending a system that undermines their fellow citizens' living standards.

The Egyptian State in the Wake of Structural Adjustment

The application of structural adjustment policies in Egypt exemplifies the relationship between the state and society. While the Egyptian state has become more autonomous vis-à-vis many domestic interest groups, sometimes by using its security forces against them, its economic dependence upon other economic powers has increased. The state in Egypt has depended on both the domestic private sector and foreign investments to support its new privatization policies; this has weakened its

capacity to pursue its development and welfare agendas. Consequently, it is necessary to differentiate between the economic and political components of state autonomy.

While the Egyptian state has not been able to control its economic activities as effectively since implementation of structural adjustment, it has been able to enforce its political agenda over less powerful social sectors through coercion by the army and police. This does not mean that the Egyptian state cannot threaten the newly-dominant economic interest groups; on the contrary, it can and does, especially when it feels that these groups are affecting the regime's stability. As Beattie (1994: 5) says, many of Egypt's traditions, including traditional Islamic notions of authority and paternalistic family structure, as well as lively images of the pharaonic tradition, undergird a society in which the executive leader is not only allowed to wield supreme power, but is in fact expected to do so.

The state in Egypt seems strong because other social sectors are very weak. This makes the state appear to be the most effective and essential agent in society. Simply speaking, other social actors are incapable of confronting the state and the structural adjustment policies that it has adopted. It is ironic that structural adjustment policies have ended the state's historical coalition with the most vulnerable groups, encouraging cooperation with the rich and new businessmen. In Egypt, those who suffer the most from structural adjustment policies were previously the state's main partners and supporters, including public employees, workers, and other members of the middle class. On the other hand, those who have benefited from structural adjustment policies are the state's historic rivals: landlords and the bourgeoisie (Hinnebusch 1994: 318). In this

context, while neoliberal economists see structural adjustment and privatization as a rational cure for universally-experienced disadvantages of state-led growth policies, Marxist theorists see the implementation of neoliberal practices as the result of new economic interest groups' constant struggle to alter the economy to serve their particular interests. By divorcing itself from its traditional support structure, the state has undermined its ability to effectively confront other economic actors.

An underlying premise of structural adjustment policies is that they will encourage democratization, but unfortunately neither the governments nor the newly advantaged interest groups are willing to share power broadly. In societies that suffer from widespread illiteracy, malnutrition, and authoritarian regimes, structural adjustment weakens civil society and most other social actors. The state, even after applying structural adjustment policies and encouraging the rise of new interest groups, is strong with regards to society. This unevenness in power relations between the state and the larger society is a crucial barrier to the democratization process in the most Middle Eastern countries, including Egypt. Kienle (1998: 235) argues that structural adjustment has been unable to democratize economic power and reduce the overwhelming power of the state.

Under these non-democratic conditions, new economic powers such as businessmen have chosen to ally with the state, to their considerable advantage. In general, these new interest groups have managed to place some of their members in the parliament, who proceed to support the ruling party and existing tendencies in state policy. As the state responds by supporting these groups and granting them new

advantages, and as they accept the patronage role of the state and do not politically compete with it, their relationship will continue to grow. But how long can the state continue to support this group at the expense of the majority?

Since the *infitah*, the Egyptian state has become increasingly integrated into the global market and allied with new businessmen and foreign investors; this trend grew much stronger with the advent of structural adjustment. Consequently, the Egyptian state has surrendered its main roles of achieving development and improved social welfare for the most vulnerable groups. Although the Egyptian state has maintained its hegemonic role, it has become dependent upon the support of businessmen and new interest groups.

Social Impacts of Structural Adjustment in Egypt

The IMF's main aim in its 1991 agreement with Egypt was macroeconomic restructuring. The structural adjustment agreement sought to lower the government's budget deficit, reduce high interest rates, bring foreign exchange rates in line, and cut high energy prices. The agreement was remarkably successful by these criteria. The IMF itself praised the fiscal and monetary achievements of the Egyptian government.

But this success came at the expense of Egypt's *etatist* system and its benefits for the larger society. With the coming of structural adjustment in 1991, the *etatist* system lost its two main pillars: development and social welfare. The state can no longer interfere in economic development, the establishment of new industrial projects, or land reclamation. Continuing a trend that began with the *infitah*, the Egyptian state thus has abandoned its active role in development, leaving it to the domestic private sector and to

foreign investors. Simultaneously, structural adjustment placed limits on the state's direct support of its citizens, leading to a wide-reaching program for cutting the welfare system. Under this reduction in welfare programs, the state has conceded its role as the primary supporter of low-income groups. Thus, since the application of the structural adjustment program, the state has become transformed from an economic hegemon to a more subservient role; required by international financial institutions to support the private sector and facilitate foreign investment, it is no longer the dominant force in the nation's economy, forging its own future and supporting its citizens.

A key tendency of the Egyptian state since the application of structural adjustment has been to reduce social subsidies and public expenditures, which in turn has affected the living conditions of the most vulnerable groups in Egypt. By cutting subsidies and downsizing social services, and simultaneously implementing new laws which facilitate private sector activity and foreign investment, the Egyptian state in effect has overhauled the nation's social structure – in ways that benefit new businessmen, foreign investments, and the private sector in general – at the expense of the majority's wellbeing. This tendency is compounded by the accelerated privatization of public sector companies, previously major pillars of the Egyptian economy and employers of a large fraction of the workforce.

There is no question that the state is an important actor in economic activities; what *is* an important question is how the state should manage relationships among different social classes and interests groups. While states in developing countries are important economic partners, catalysts, and facilitators, their long-term effectiveness is in

question. In the absence of a strong civil society, minimizing the role of the state in developing countries will lead to the dominance of specific interest groups at the expense of the society's most vulnerable people. As Chibber (1997) says, a strong state is vital for development. Although states cannot by themselves bring about development, development cannot occur in the absence of an effective state.