Egypt's Political Economy and the Downfall of the Mubarak Regime

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Abstract

This paper examines the political economy of Egypt to explain the downfall of the Mubarak regime in 2011. As background, we briefly examine the Nasser and the Sadat regimes. The Nasser regime was authoritarian and implemented a policy of public sector expansion, nationalization of foreign and large domestic assets and subsidies for basic consumption goods. These measures promoted equity, but soon ran into serious financial problems. The Sadat regime changed direction and introduced Infitah (openness) in 1974. The economy did not perform well and the regime ran into severe economic and political crisis. The Mubarak regime continued the open door economic policy. Economic crises continued to plague the regime. In the 1990s, the Mubarak regime implemented the IMF-sponsored Structural Adjustment Program (SAP). While successfully addressing macroeconomic issues, it also gave rise to undesirable effects on the economy and society. The effort to privatize the economy was intensified in the 2000s. The way the SAP was implemented led to corruption, concentration of economic and political power, rising inequality, poverty and unemployment. Protest movements against these developments gradually gathered steam. With the spark lit in Tunisia where crowds successfully ousted President Ben Ali,Egyptians rose up in protest, leading to the downfall of the Mubarak regime.The lessons are that Egypt must focus on equity and openness and the IMF cannot ignore the harmful effects of its SAP.

Introduction

On 11 February 2011, President Hosni Mubarak announced his resignation and handed over Egypt's government to the military which promised to work towards a transition to a new regime. This landmark event, following as it did the earlier downfall of President Ben Ali of Tunisia, was much cheered and celebrated in Egypt as well as the rest of the world. Street protests and non-violent demonstrations quickly spread to other countries in the Middle East and North Africa (MENA). This whole movement has been called the "Arab Spring". Scholars, media pundits and bloggers have since been analyzing these developments and offering a variety of explanations. Some have focused on the political dimensions of these protests and argued that the Arab street is calling for transition from dictatorship to democracy. Others have pointed to the rampant corruption, rising economic inequality and sudden acceleration of food prices. There is no doubt that this movement is a result of complex interplay of political and economic forces at both the domestic and international levels. Hence an understanding of this movement cannot be based on simple dichotomies, such as, dictatorship/democracy, state capitalism/marketcapitalism and so on.

What is becoming clear is that neither political institutions nor the economic policies fulfilled the aspirations of the masses of people in the MENA region. Since political opposition was brutally suppressed and forced to go underground, the deep discontented was not recognized by the regimes. All that took was a spark and that was provided by the successful uprising in Tunisia. Egyptians followed suit with their march to Tahrir Square.This paper takes a political economy approach to put the developments in Egypt into perspective. This approach is based on the premise that there is complex interaction between political and economic forces in a society. This approach looks at "the distribution of power and wealth between different groups and individuals, and the processes that create, sustain ad transform these relationships over time". (Collinson, 2003, p. 3).Recent Egyptian history can best be understood with the political economy approach, rather than with a single disciplinary framework. By using this approach, one can analyze the economic impact of political decisions as well as the political impact of economic policy and explain the changes that result from their complex interactions.

The paper starts with a brief overview of the political economy of the Nasser regime. It then moves on to provide a short analysis of the political economy of the Sadat regime. With the analysis of these two regimes as backdrop, the paper takes a detailed look at the political economy of the Mubarak regime. According to Collinson, the political economy approach should be able to "explain why the relative power and vulnerability of different groups changes over time, and explain how the fortunes and activities of one group in society affect others"(Collinson, 2003, p. 3). This analytical approach is applied to developments over time in Egyptwhich led to the downfall of the Mubarak regime.

The Nasser Era (1952-1970)

Egypt was in a chaotic state in the immediate post-WWII period. In July 1952, a group of junior military officers led by Gamal Abdel Nasser overthrew the enfeebled monarchy and seized power. The Revolutionary Command Council (RCC) which Nasser led took charge of the country's affairs.

The officers did not have a ready-made set of policies or programs. Nor did they have a political base. They had to create these as they proceeded to govern the country. As an expression of the direction to take the country, the RCC made the following pledges, as noted by Waterbury (p. 48):

- End imperialism and its agents
- End feudalism
- End monopoly and capitalistic control
- Establish a powerful army
- Establish social justice
- Establish sound democracy

The Nasser regime attempted major structural transformation of Egyptian institutions that they inherited to fulfill these pledges. While succeeding in bringing in major changes, the regime ran into severe difficulties in terms of resource availability and had to change course towards its end. In this section, we will provide a brief overview of the political economy of the Nasser regime.Nasser came to power in the post-colonial period when many newly independent countries launched a program of Import Substitution Industrialization (ISI) and massive expansion of the public sector. This was the era of massive industrialization through rapid public sector expansion. Nasser and the officers had no political base. Instead of allowing a system of competing political parties to develop, Nasser expanded his political base by expanding the role of the state and brought in different groups into its umbrella. While retaining the private sector, Nasser launched a program of mass nationalization and expanded the role of the state in the economy. What he envisaged was "a kind of humanitarian socialist order in which all the major means of production were owned or controlled by the state" (Waterbury, 1983, p. 17).

Program of nationalization

Egypt's nationalization program started the land reform of 1952. This was an attempt to deliver on the RCC promise of ending feudalism which characterized the economy of Egypt under the monarchy. Osman notes that by the end of the 1940s, 5 percent of the population held 65% of the assets. In agriculture, 3 percent of the population held 80 percent of cultivable land (Osman, 2010, p. 46). Nasser was determined to break this hold on economic power. Under the Agrarian Reform Law (Law 178) of 11 September 1952, individually owned holdings were limited to 200 *feddans* (an area similar to an acre). The surplus lands were taken over by the government with fixed compensation paid to the landowners. These lands were gradually sold with generous payment schedules to individuals in small lots not exceeding five *feddans*. Those who owned less than five *feddans* became part of the newly established co-operatives. The co-operative farmers worked together to obtain farm supplies and transportation of their crop to the market.

In addition to the land ceilings, a limit on tenant rents was imposed at seven times the land tax value of the land. A minimum wage for farm workers was also set. These reforms benefited the Egyptian peasants and boosted their income and standard of living as never before. In August 1955, the sugar holdings of Ahmad 'Aboud were sequestered.

In the same year Nasser had to deal with a foreign policy issue with large implications for the nationalization program. At the time, Egypt was under an arms embargo from the West since it was considered to be in a state of war with Israel. He tried to defy it by contracting to obtain weapons from Czechoslovakia.The ensuing diplomatic tussle involving Egypt, the World Bank and Washington led to the withdrawal of promised funding from Washington for the construction of the High Aswan Dam. Aswan Dam was an important project for the new regime. All the dreams of remaking a new, modern Egypt were invested in this project. The dam was needed to harness the water resources for agricultural development, land reclamation, generation of hydroelectric power and recreation. Waterbury captures its value to the regime as follows:

> The Aswan Dam symbolized rationality in resource management, national sovereignty and strength, and the leading role of the state in finding technocratic solutions to Egypt's socio-economic problems. All are closely interlinked. (Waterbury, 1983, p. 64)

The Eisenhower administration agreed to participate in the funding of this project as a way to show its engagement with the Third World, but pulled out of the deal on 19 July 1956. Borzutzkya and Berger make the argument that the Eisenhower administration was caught in a situation of conflicting international and domestic priorities and was misinterpreting Egypt and Nasser. They write:

> Decision-makers, in short, developed a schema to describe Nasser in terms thatwould provide a rationale for US policy towards Egypt that was geared to prevent thatpolicy from conflicting with other domestic and international priorities. Because theschema was at odds with the objective facts of the situation, the resulting policy decisionsled to disastrous consequences for the United States.(Borzutzkya and Berger, 2010)

The consequences were, indeed, disastrous for Western diplomatic and business interests. Nasser reacted to the withdrawal of Aswan Dam funding by nationalizing the Suez Canal, a French-owned company. He claimed that the Egyptian government needed the revenue to help build the Aswan dam. U.K., France and Israel wanted to launch a war to retake the Suez Canal. Lacking American support, the plan fizzled out. Into this opening, the Soviets moved in with funding and Egypt was in the Soviet orbit till the 1970s. It was a historic missed opportunity for U.S. policy in the region.

The Egyptian program of nationalization did not end with the Suez Canal.In January 1957, all commercial banks, insurance companies and foreign trade agencies were nationalized. These assets came under the supervision of the Economic Organization also created in 1957. The pace of nationalization continued unabated. In 1960, the Misr Bank and the Central Bank were nationalized. In 1961, the state acquired effective control of banks, insurance companies, shipping companies, heavy industries and so on. Later on, the state extended control over pharmaceutical companies, big construction companies and public utilities (Waterbury, 1983, p. 74).For Nasser the program of nationalization meant the breaking of the power of foreign and domestic oligarchs. It was part of his attempt to restructure Egyptian institutions to serve the interests of the many rather than the few.

In an attempt to flatten the income distribution, the state imposed high marginal tax rates on higher incomes and laid down salary limits on public enterprise directors (Waterbury, p. 75). In order to raise the living standards of people in the lower rungs of the economic ladder, the state introduced a policy of consumption subsidies for basic commodities.As the First Five Year Plan (1960-65) was launched, the Egyptian state controlled all major sectors of the economy. All further industrialization was to take place within the framework of the Plan. The public sector became a major employer of skilled technical personnel. All the university graduates were guaranteed a job in the public sector. With these developments, a new middle-class elite within the public sector emerged. Through this sweeping structural transformation, Nasser put a lid on the upper rungs. To compensate for the loss of the upper class support, he brought in the more numerous middle and lower classes as stakeholders into the system. Food and fuel subsidies were introduced to make basic goods widely affordable to the middle and lower classes. These new stakeholders were counted on for providing mass support for the regime's policies.

Crisis of the State

This system ran into serious difficulties within a few years. While consumption continued to rise, domestic savings and investment failed to materialize, leading to a huge fiscal gap. To cover the gap, the state had to resort to massive external borrowing. On top of that, with poor export performance and unrelenting rise in imports, a severe balance of payments crisis also developed.

As the country approached the end of the First Five Year Plan, it ran into more problems all across the economy. With padded payrolls and massive misallocation of resources and inefficiencies, the public sector deliveredneither productivity gains nor surpluses. Due to the balance of payments crisis, raw material imports for many public sector companies had to be suspended, further compounding the problem. By 1965, it was becoming apparent that this system based on public sector expansion and commitments to consumption subsidies was not sustainable.

The fall of Khrushchev in 1964 marked an adverse turn of event for Egypt. Till then, the Soviets were financiers of development projects as well as political protectors of the Nasser regime. After Khrushchev, Soviet support and financial aid became unreliable. Egypt was forced to negotiate for credit with the IMF. The IMF came up with its stabilization program which required Egypt to devalue the Egyptian pound by 40 percent, scale down investments and raise prices and taxes (Waterbury, 1983, p. 96). The devaluation requirement was considered not politically acceptable and the IMF program was put on hold. In another major blow, the U.S. administration announced that it was shutting down the P.L. 480 wheat shipments. The "populist, development list state capitalism" (Cooper, 1982, p. 37) broke down under the pressure of rising consumption and inadequate internal and external resources to pay for all the demand placed on it.

The War of 1967 and Its Aftermath

The economic breakdown had political consequences. Protests by the affected groups followed and so did state reaction with mass arrests. Political support for the regime was eroding. In the context of the faltering economy and turbulent politics, the Arab-Israeli War of 1967 was fought with disastrous consequences. Aside from the humiliating military defeat, the Nasser regime faced a stagnant economy and political chaos. All the groups were pressing their demands on the streets and the state's response was the use of repressive measures to put down the demonstrators. The fundamental reality, of course, was that the state had no resources to meet all the demands. It was inevitable that major restructuring of the system had to be undertaken.

The March 30 Program

The restructuring came in the form of the March 30 Program (Cooper, 1982, p. 44). The basic thrust of the program was a guarded turn away from state capitalism toward liberalization of the economy. As Cooper puts it:

> A broad scope for private activity was envisioned. Incentives and reward by merit would be the primary motivator of economic activity and a depoliticization of the public sector would take place. (Cooper, 1982, p. 4)

The Program envisioned more space for the private sector and a restructured public sector. In the private sector many restrictions were lifted. Decision-making in the public sector were to be based on economic bottom-line measures which would mean shrinking the public sector wherever it was justified.These measures were resisted and widely debated. Opposition voices were heard within the Arab Socialist Union (ASU), the press and many conferences. The basic point was that the March 30 program went against the socialist principles. This argument was also brought into the National Assembly.

The March 30 Program was the opposite of the earlier strategy of reining in the upper classes and bringing in the middle and lower classes to the embrace of the public sector. Predictably, the political reform was opposed as being biased towards the upper classes and counter-revolutionary. The reform measures went ahead anyway. The impact of the economic measures began to be felt. The import of luxury goods, especially automobiles went up. Private sector investment went up. Public sector began to shrink. Export performance was improving. The benefits, of course, were favoring the upper classes. Industrialists and rich farmers were doing well, while the share of wages was showing a declining trend (Cooper, pp. 61-62).

On September 30, 1970, Nasser died without being able to fulfill many of the pledges made by the RCC when the junior officers took over in 1952. The Nasser regime started with a program of nationalization of many large domestic assets, Egyptianization of foreign assets and expanding the public sector as a strategy of development with equity. This state-led economic system ran into severe crisis as it could not meet the rising expectations of its constituent parts, given the severe lack of resources. Towards the end of the regime, Egypt took steps to move away from the state-led to a liberalized economic model. By so doing, it also sowed the seeds of an unequal and polarized political economy that emerged in the post-Nasser era.

The Sadat Era(1970-1981)

Following the death of Nasser, Anwar Sadat, the Vice President and a member of the original Free Officers group succeeded Nasser. He vowed to continue the path of Nasser. Sadat, however, did not share Nasser's socialistic leanings and he took the country along a very different path. At the time of Nasser's death, Egypt had already abandoned the strategy of economic growth through public sector expansion and started tentative steps towards liberalization. Ultimately, this was the path that Sadat took further. Upon assuming office, however, Sadat had to contend with, as Cooper notes, "the ghost of Nasser" (Cooper, 1982, p. 67). So, Sadat unleashed a series of populist measures to gather political support. Consumer goods prices were lowered and many import restrictions were lifted. There was talk of freedom in the air. Cooperdescribes the succession from Nasser to Sadat as follows:

> All had started with the end of hostilities in June 1967 and the [Sadat] regime knew the direction that it had to follow. In form, it was early Nasser, in substance it was late Nasser, the Nasser of the March 30 Program; in impact it was effective, for the crisis of succession was successfully and peacefully negotiated. (Cooper, 1982, p. 67)

After the succession, the policy pathways followed by Egypt under Sadat were neither successful nor peaceful. In the economic field, his attempts at liberalization did not benefit most of the Egyptians. In the political field, his attempt at liberalization was incomplete and contradictory. In this section, we provide a short overview of the political economy of the Sadat regime.

When Sadat assumed power, the country had representatives of a wide spectrum of political beliefs. From Marxists and Nasserite socialists on the left to the free market liberals and religious conservatives on the right, the country had various groups vying for influence. Sadat saw his constituency in the center-right and cut others down to size through various means. In a purge, he got rid of his Vice President and the security elite by claiming that they were planning a coup. His purge also extended to leftist groups. Sadat asserted the power of the state and the authority of the President. Sadat saw the state as the institution through which all issues would be addressed. He also viewed the President as the ultimate "arbiter of the whole" (Cooper, 1982, p. 75). He did not take long to demonstratewhat he meant by his vision. Policy changes he wanted to introduce came in the form of decrees. He exercised his presidential powers to make appointments at the political, administrative and bureaucratic levels. The stage was set for remaking Egypt in Sadat's vision.

Yet, nothing much happened for much of 1972 and 1973 in terms of drastic policy changes. During this period, the country was in a constant state of unrest. One group or another was protesting against governmental inaction. Students, workers, the army and economic liberals were all expressing their grievances. Basically, Egyptians were getting frustrated and wanted better outcomes. The Sadat regime was seen as not delivering on its promises. There was much substance in these complaints. The economy was stalled. With a stagnant private sector and inefficient public sector and rising debt levels, the country was getting restless (Cooper 1982, p. 85). It was in this context of domestic unrest that the 1973 war with Israel was planned and executed. The October 1973 war, with its initial dramatic development in favor of Egyptian forces, restored some of the pride lost during the disastrous 1967 war. The war, however, was costly with the rising military expenditures and a badly squeezed civilian economy. Sadat had to move quickly with his restructuring plans.

October Working Paper, 1974 and the Infitah

His major move came in the form of the October Working Paper released and approved in a plebiscite in 1974. It was the blueprint of a new economic strategy of liberalization, referred to as *al-Infitah al-intisadi* in Arabic. The basic premise of the new strategy is summarized by Cooperin the form of an equation:

> Arab capital + Western technology + abundant Egyptian resources = development and progress. (Cooper, 1982, p. 90)

The idea was to open up the country to foreign investment and technology transfer to usher in an era of prosperity. The plan involved attracting foreign capital and technology,financial institutions and freeing up the labor markets. Special focus was paid to attracting Arab petro-dollars. Egyptian labor could move freely abroad and bring in foreign exchange. As for industrial projects, foreigners were allowed free entry. In the case of public sector companies, upto 49 percent of private ownership was allowed. Public sector companies were thus freed from control from the top.

In agriculture, foreigners were allowed to invest in land reclamation and growing crops for export. The construction sector was opened up for foreign investment in luxury housing. In short, the goal of the new economic policy was rapid economic growth. The underlying argument was the standard classical economic argument: let the market forces operate freely and resources will be allocated efficiently, ushering in economic prosperity. The equity principle which figured prominently during the early Nasser era was underplayed, if not completely ignored.

Economic Performance under the Infitah: 1974-1977

How did the strategy fare? It turned out that this policy did not fare well at all. Cooper writes:

> Until the end of 1977, economic liberalization was an utter disaster. It produced none of the benefits that the government had projected and almost every one of the negative impacts that the left had predicted (Cooper, 1982, p. 106).

Private investment went into luxury construction, tourism and finance and very little to industrial activity. With such lop-sided growth, Cooper notes, the percentage of industrial activity in the total economic activity was declining (Cooper, 1982, p. 106).What went wrong? Just as in the Nasser era, consumption kept increasing and production stagnated. To the credit of *Infitah, e*xports were more diversified. In addition to cotton, fruits, vegetables and petroleum were added. Export performance, however, was nomatch to what was happening on the import side. Import of food, consumer durables and luxury items were rising.

This pattern of shifting economic activity had its impact on the nation's financial accounts. The gap between consumption and production had to be financed by borrowing. The gap between exports and imports had to be financed by external borrowing. The debt and deficit positions rose dramatically. The domestic fiscal deficit was tackled with deficit financing by printing money. Predictably, the classical monetarist type of inflation roared at double digit levels. External debt exploded. There was no question that Egypt was in a state of financial emergency by 1976.Help came in the form of foreign aid. Arab states (Saudi Arabia, Kuwait, Qatar and United Arab Emirates) got together and formed the Gulf Organization for Development in Egypt (GODE) in 1976. GODE had set up authorized fund of $2 billion with the aim of financing development projects and balance of payment needs (Boogaerde, 1991, p. 21). GODE provided much needed temporary relief from financial pressures.

Income Distribution

Under liberalization, the class structure and income distribution rapidly changed in favor of the top rung of the economic ladder. The set of policy measures which included reduction in marginal tax rates and tax exemptions and concessions of various kinds (Cooper, p. 123) skewed income distribution in favor of those who were already wealthy and could avail themselves of the opportunities thrown open by the liberalization policy. The middle class was struggling with stagnating income and rising prices. The lower class sunk even further into poverty.

Political Liberalization

Parallel to economic liberalization, the October Working Paper of 1974 also promised political liberalization. As part of that process, a new constitution had been put in place in 1971. Nominally, it created a parliamentary system, but not of the Westminster variety. It had the standard three branches: the executive, legislature and judiciary. However, the framework of these institutions did not include American style checks and balances. The office of the president was bestowed with extraordinary powers, including the power to legislate through decree and emergency powers (Cooper,1982, p. 161). In effect, the President was supreme.

It was in this context that efforts to liberalize took place. As the process to elect a new Assembly got underway, Sadat intervened at crucial moments to control the direction of political activities.When the door for political mobilization was opened, Egyptians saw a large number of groups advancing their vision for the country by means of platforms. Cooper counted 31 platforms (Cooper, 1982, p. 183), representing a wide spectrum of political ideologies and religious positions. These were not party platforms, since parties were not allowed. In the end, Sadat endorseda narrow set of three platforms to represent the left, center and right. These became Organizations (Cooper, 1982, p. 191).

Elections were held in 1976. As Sadat wanted, the center won an overwhelming majority with 280 seats out of a total of 342 seats in the People's assembly. The left won just 2 seats and the right 12. The rest were independents. While the election went the way Sadat wanted, the electoral process raised political awareness and stimulated a lot of debate. However, the heavy-handed manipulation of the political process which resulted in the overwhelming majority of the center meant that no "loyal opposition" emerged.While the Assembly was a great debating forum, it was ineffective as a legislative body. The President could easily bypass the legislature. That is exactly what he did on a crucial decision and it led to a major political crisis.

The January 1977 Riots

On the night of 17 January 1977, the government raised the prices of subsidized basic commodities without any debate or parliamentary legislation. Next day, Egyptians woke up to find their purchasing power lowered by 15 percent (Cooper, p. 236). Riots broke out immediately all across the country. For two days, the country was in total chaos, until the army restored order. The subsidies were restored.Why did the government move to reduce subsidies? It is related to the International Monetary Fund (IMF)Structural Adjustment Program (SAP). In 1976, to deal with its perennial financial crisis, Egypt was negotiating with the IMF for a standby credit. As a condition for credit approval, the IMF wanted Egypt to cut subsidies and government expenditures. The government waited till the elections were over to cut subsidies. When it did this through an administrative fiat, riots broke out.The reaction of the Sadat regime to the riots of 1977 was a turn towards political repression. Any challenges and opposition were crushed. Having stymied the opposition, he launched his own political party in August 1978 under the Parties Law of May 1977. His party was named the National Democratic Party (NDP). At the same time, the Socialist Labor Party (SLP) was also launched, only to find itself repressed when its MPs were trying to act as genuine opposition. (Waterbury, 1983, p. 373).

The Camp David Accord

Given the intractable problems in the domestic scene, Sadat turned his attention to external affairs where he felt that he could achieve something. With the mediation of President Jimmy Carter, Sadat and Prime Minister Menachem Begin of Israel signed the Camp David Accord on 17 September 1978. For this historic accord, both leaders were awarded the Nobel Peace Prize. In 1979, Israel and Egypt signed a peace treaty. While both leaders were hailed for their boldness, the treaty did not sit well with the rest of the Arab world, since it side-stepped the Palestinian issue. It had immediate financial consequences for Egypt. GODE was dissolved and its funding dried up. Sadat regime had to rely even more on Western sources. The peace treaty with Israel did not bring economic dividends. It made a difficult situation more complicated. By side-stepping the Palestinian issue and going it alone with Israel, Sadat alienated his Arab financial backers. Domestically, the Muslim Brotherhood (MB) and other opposition voices were highly critical of his foreign policy moves. The regime responded with brutal repressive measures. One of the breakaway factions from the MB called Jihad assassinated Sadat on 6 October 1981. The Sadat regime came to an abrupt end.

Sadat came to power under the shadow of Nasser. Once he consolidated his position, he took the country in a completely different direction. He moved away from the Soviet camp and put the country firmly on the Western orbit. He liberalized the economy in the hope of opening up the floodgates of financial and commercial activity. Egypt did see a lot of activity, but only in some selected sectors. The benefits were not shared widely. When the government cut the subsidies in 1977, the country exploded in riots. On the political front, Sadat allowed for limited liberalization. However, the process was controlled and through repression no effective opposition was allowed to emerge. When he left the scene, Egyptians had neither a liberalized and well-functioning economy nor a liberalized polity.

The Mubarak Era (1981-2011)

At the time of death of Sadat, Hosni Mubarak was Vice-President of Egypt. He succeeded Sadat and became president on 14 October 1981. In contrast to Nasser and Sadat, Mubarak was a colorless and cautious individual without a personal vision or agenda for the country. On assuming power, he was not interested in rocking the boat, but wanted to sooth the country from the excesses of the Sadat regime in its last years. To distinguish himself from his controversial predecessors, he reputedly said: 'I am neither Gamal Abdel Nasser nor Anwar el Sadat. My name is Hosni Mubarak'(quoted in Faksh, 1983).

Thousands of political prisoners were released. Press censorship was relaxed. Many civic society organizations were allowed to function. Instead of a man with vision, he projected an image of a pragmatic leader interested in solving problems facing the country. For many Egyptians this was a breath of fresh air.The mood was optimistic.The country's economic condition, however, was in crisis mode. It had been so for a number of years as Sadat's *Infitah* policy had failed to uplift the economy. In order to generate new ideas, Mubarak convened a closed-door economic conference on 12 February 1982. He invited all the prominent economists in order "to assess the state of the economy with an eye to formulate an action plan"(Soliman, 2011, p. 36). The meeting lasted three days, but no details about the discussions emerged.

Aside from the official meeting, there was open debate about the direction of economic policy both inside and outside the government circles. Prominent left-wing economists pointed out the shortcomings of *Infitah*. They argued that under *Infitah*, no growth of industrialization took place, but consumerism and importation was encouraged. The economy in the 1970s was dependent on rentier revenue flows from Suez Canal fees, petroleum exports, remittances from expatriate Egyptian workers and foreign aid. Egyptian capitalists "focused their energies on speculation and investment in quick profit schemes such as consumer imports and real estate construction" (Soliman, 2011, p. 36). These arguments were not new. They were made at the very outset of *Infitah*in 1974, but had no impact on the Sadat regime. In 1982, they met with the same fate. Although the Mubarak regime made a show of listening to all points of view, it was clearly committed to the *Infitah* process and economic reform measures advocated by right-wing free market economists and the business class.

The Mubarak regime rebranded the economic reform process the Open Door Policy (ODP).While the commitment was made in favor of the ODP, Mubarak could not afford to move quickly in this direction. Despite the Sadat era *Infitah*process, the public sector was still large. In contrast, the private sector was small and weak. It was concentrated only in a few areas. The extensive subsidy system for basic goods was still in place. Mubarak dared not dismantle it too quickly. The specter of the 1977 food riots was ever present, haunting the new regime. Over the course of his thirty year rule, Mubarak implemented the ODP in fits and starts, trying to accommodate domestic considerations, pressure from creditors, aid donors and International Financial Institutions (IFIs). Towards the end of his regime a serious attempt was launched to throw open all economic doors which ultimately ended up closing the door on the Mubarak regime. In this section, we analyze the pathways to the downfall of the Mubarak regime.

The New Five Year Plans

At the end of the February 12, 1982 economic conference, it was declared that the "government would revert to central economic and social planning and steer the Open Door Policy towards production". (Soliman, 2011, p. 36). After this conference, the 1980s First Five Year Plan (1982-1987) was announced. This was not related to the Nasser-era Five Year Plans of the 1960s. Essentially, the Mubarak Five Year Plans were investment allocation plans. The Ministry of Planning took charge of this process. Many infrastructure projects were undertaken within the framework of the Five Year Plans. In addition to the public sector investment under the First Five year Plan, Mubarak also implemented a set of policies to boost industrial activity which included tariff barriers to protect domestic industries, lower interest rate on industrial loans and reduced taxes on industrial project (Soliman, 2011, p. 37). This was a throwback to the Import Substitution Industrialization (ISI) policies of an earlier era. These measures helped domestic industrial sector to grow. Both public and private sector industries benefited from this form of government intervention, albeit at the expense of Egyptian consumers who had to pay higher prices than found abroad. (Soliman, 2011, p. 38).

Road to a Crisis

Despite this bright spot, Egypt was rapidly heading towards an economic crisis by the end of the First Five Year Plan. The sources of the problem were several. During the Sadat regime, despite *Infitah*, public sector spending kept growing. After the 1977 food riots, IMF plan had been suspended. Food subsidy spending kept rising. Then in the 1980s, oil prices collapsed, cutting revenues from oil exports as well as Suez Canal fees with lesser ship traffic. Foreign aid dollars also plunged due to recession in the donor countries. Domestically, tax revenues plunged as well. (Soliman, 2011, p. 41-42.).On the spending side, there was no room to cut. The Mubarak regime, as was the case with the Sadat and Nasser regimes before, faced the same dilemma. If the subsidies and other expenditures were cut, there was the risk of a massive revolt, similar to the 1977 food riots.

In order to avoid such a revolt, the government kept spending and running budget deficits. On the international front, the drop in revenues meant that a serious balance of payments deficit was also developing. It became clear that such a path was unsustainable.Egypt had no choice but to start negotiating with the IFIs about the SAP in order to be able to get credit to deal with the mounting economic crisis. In May 1987, Egypt agreed to implement the IMF program designed to reduce public spending, liberalize the private sector and improve functioning of the financial markets. In return, the Paris Club agreed to reschedule debt repayment. The agreement collapsed towards the end of 1987 because Egypt failed to comply with the terms of the agreement. The agreement was suspended with only half of the support fund dispersed (Seddon, 1990, p. 96). Instead of reducing public spending as demanded by the IMF, it was increased. The gap was funded by printing money. Predictably, inflation raged at 20percent. Negotiations with the IMF were reinitiated but went nowhere. The stumbling block was the familiar fear of stoking political instability by slashing public expenditures to cut the budget deficit. Negotiations with the IMF were continuing, but the government kept delaying coming to an agreement.

The delaying tactics eventually lost its effectiveness. Creditor parties began to exert co-ordinated pressure on Egypt to come to an agreement. The World Bank withheld soft loans until Egypt cut energy price subsidies. The U.S. Agency for International Development (USAID) was putting pressure on Egypt to comply with the IMF program. Other trading partners were demanding the same (Seddon, 1990, p.97-98). These pressures did not lead to comprehensive reform measures. The Egyptian side kept dragging its feet with the IMF. As Richards notes, Egypt's tactic was to "promise much and deliver little" (Richards, 1991, p. 1728). Several times during this process, it appeared that the government was about to buckle under the pressure and introduce IMF structural reform program, but it did not happen. The main reason for the hesitancy was concern about domestic political repercussions.

Even as the endless rounds of negotiations were going on there was wide-spread opposition to the IMF program. There were strikes in a number of sectors of the economy. The Mubarak regime invoked the emergency laws to put down the protests by massive arrests and intimidation tactics. These emergency laws were proclaimed in 1981 and remained in place throughout the Mubarak regime. They were routinely used to suppress dissent on this and many other occasions. While protests were quelled, the inexorable deterioration of the fiscal condition of the Egyptian economy could not be stopped. By 1990, Egypt was facing virtual bankruptcy.At this point, Iraq invaded Kuwait and the U.S. launched the 1991 Gulf War. Egypt exploited its strategic importance to Washington and extracted financial assistance. Egypt managed to get its creditor nations to cancel half of its external debt. Such largesse, however, did not come free, but with strings attached. In return, Egypt had to conclude a structural reform agreement with the IMF. In May 1991, Egypt signed agreements with the World Bank and IMF. This time around, Egypt began a serious attempt to implement the program with close monitoring by the IFIs.

How successful was Egypt in dealing with the structural issues? Many studies of Egypt's stabilization program in the 1990s have declared it successful. According to Zaki, the program has been successful in reducing the deficit without sacrificing growth and in improving the external balance. He writes:

> To the extent that the programs cured both domestic and external imbalances, as well as instituted significant market reforms, the experience of Egypt has been unambiguously a success story. (Zaki, 2001, p. 1878)

The IMF itself praised Egypt with these words:

> By the standards of recent experience with economic stabilization, Egypt in the 1990s is a remarkable success story. Determined macroeconomic policy, together with some favorable external developments, has brought much reduced inflation, led to improved public finances, a stable currency, and a strengthened banking system, together with a sound balance of payments position. (Handy, 1998, p. 1)

Inflation was brought under control by tightening fiscal and monetary policies. From 21 percent just before the reform period the Consumer Price Index was brought down to 7 percent by 1996. (Handy, 1998, p.19). Economist Subramanian of the IMF wrote about resounding Egyptian success as follows:

> Egypt's economy has come a long way since the 1980s. Growth is recovering and confidence is rising. Tough macroeconomic policies and deep structural reforms are doing the trick. (Subramaian, p. 44)

The trick, however, was elsewhere. As Soliman points out, the real trick used by the Egyptian government was mostly on the revenue side. A significant factor was the introduction of a general sales tax in 1991. Devaluation of the Egyptian currency also raised the value of exports expressed in Egyptian pounds. This was an accounting trick. These along with the financial assistance for working with the coalition forces during the Gulf War improved the revenue stream. There was no dramatic reduction on the spending side. (Soliman, 2011, p. 47).To his credit, Subramanian's retrospective work in hindsight does recognize this fact by noting that social expenditures were left unchanged and the government "cut back on projects in the electricity and tourism sectors." (Subramanian, p. 14).Besides fiscal and exchange rate policies, Egypt during this period also reduced its stakes in many public sector companies, introduced new investment laws and eased bureaucratic controls. As advised by the IFIs, Egypt was shrinking the economic role of the government. This retreat and its implications are described by Rutherford as follows:

> Collectively, these new laws curtailed the state's role in economic production and in provision of job and services. They also reduced its ability to control key features of the economy, such as prices, interest rates, the formation of companies and access to capital. (Rutherford, 2008, p. 199)

This trend of decreased economic role for the state was further reinforced when Egypt joined the World Trade Organization (WTO) in 1995. This meant that Egypt would gain access to global markets and, in exchange, has to comply with the WTO trade regulations. The thrust of the WTO regulations is to move countries toward freer trade. That meant gradual elimination of barriers to trade such as tariffs and non-tariff barriers. Entry into the WTO also meant a reduced role for the state in international trade. In the case of Egypt, Rutherford points to two important areas where entry into the WTO changed the role of the state. One of them was the textile industry which lost its protection and politically driven export promotion. The other one was the even more significant case of the telecommunication industry. WTO rules required liberalization and transparency. Egypt agreed to apply these principles within the General Agreement on Trade in Services (GATS). Bandwidths for cellular telephone networks were auctioned off in an open transparent process. The auction brought in $1 billion in revenues, $3 billion in foreign direct investment and the latest technology (Rutherford, 2008, pp. 200-202). This technology would play a major role in bringing down the Mubarak regime in 2011.

Side Effects of SAP

While Egypt was being praised for its success in SAP by the IMF and others, very few noted that it was only a lop-sided, partial success. The SAP of IMF targeted the short-term fiscal parameters and once achieved declared the program a success. The IMF policy did nothing to boost productivity of the economy and increase supply which is needed for long-term prosperity for Egypt. Harrigan and El-Said have argued that such supply-side measures were advanced by the World Bank, but once the immediate fiscal crisis passed, Egypt side-lined the World Bank which lost its influence (Harrigan and El-Said, 2010). They have alsoargued that Egypt's growth performance in the 1990s was not export-led,as expected by the IMF, but was due to domestic demand growth mostly in the construction sector (Harrigan and El-Said, 2009).

Besides the lop-sided growth, there were severe adverse consequences of the SAP which werehardly noticed by the IMF and the Egyptian government. One of them was the rising levels of poverty.This phenomenon already started with the *Infitah* policy initiated by Sadat in 1974. With the vigorous implementation of SAP in the 1990s, the poverty level kept climbing. As the IMF was guiding Egypt with its SAP, the World Bank published a report in 1991 (World Bank, 1991) which provided an extensive analysis of the problem of poverty in Egypt and sketched out a strategy to tackle it. The report noted that 20 to 25 percent of the Egyptian population was poor and out of that 10 to 13 percent was considered ultra poor. It also noted that the level of poverty was higher in rural areas which were also poorly served in terms of health and educational facilities. Even the benefit of food subsidies did not reach many of the rural poor.

The report also highlighted the cause of rural poverty which was inequality in land ownership. The richest 20 percent of landowners, the report noted, controlled 70 percent of agricultural land while the bottom 20 percent controlled 5 percent.One of the contributing factors to the rising misery of the poor was the sharp rise in food prices. The World Bank report noted that between 1982 and 1987, the cost of "minimum cost diet" increased by 216 percent in urban and 242 percent in rural areas (World Bank, 1991, p. xvii).

The report also recorded that between May and August 1989, cost of food for the urban poor increased 40 percent, leading to possible cutback in consumption. While food prices registered dramatic increases, wages stagnated.
The World Bank report recognized that SAP and privatization program could lead to serious problems for the vulnerable. The report identified three types of costs: (i) labor displacement due to privatization; (ii) price increases; and (iii) decrease in the delivery of social services (World Bank, 1991, pp. xvii-xviii). In order to ameliorate these problems, the report suggested setting up an Emergency Social Fund to protect the vulnerable from the effects of SAP.

In 1991, Egypt did establish the Social Fund for Development (SFD) with funding from international donors and the government of Egypt. Its mandate was to alleviate poverty. It undertook programs in education, health, infrastructure and microfinance. A team of World Bank researchers evaluated the SFD interventions and found them to “have had clear and measurable effects, in the expected direction for all the programs considered”. (Abou-Ali, 2009, p. 1). They also found, however, that not all programs were pro-poor. Other observers have pointed out serious problems with the way the programs were governed and operated. SFD had little autonomy since the majority of the seats in its board were held by public officials (Reddy, 1998, p. 37, footnote 16). This dominance meant that SFD funds were subject to political manipulation. In the Reddy study, Fergany is quoted as observing that “influential persons seem to claim, and get priority treatment in SFD funding” (Reddy, 1998, p. 62)

The IMF itself had not considered the negative consequences of its SAP. Only macroeconomic variables were targeted and based on progress achieved in those variables the program was declared a resounding success. As Pfeifer notes, the IMF evaluation by Handy and the Staff Team (1998) rarely touched the subjects of employment, unemployment and human development. Even when these topics were mentioned, it was taken for granted that privatization and liberalization would lead to higher private investment which would take care of unemployment and poverty reduction. According to IMF sources, the unemployment rate in 1995 was 10-22 percent. The proportion of Egyptians living in absolute poverty was estimated to be 7.6 percent (Pfeifer, 2000, Table 7.6, p. 143). The poverty rate was based on Egyptians living on less than a $1 a day on the basis of the purchasing power parity formula. However, the actual figure was dramatically higher, as much as 44 percent on the basis of consumption surveys done by another researcher cited by Pfeifer. Most likely the official unemployment and poverty figures were gross under-estimates.

Besides rising unemployment and poverty, there was another phenomenon which was manifesting itself in the form of widening inequality during the reform process. Unemployment, low wages and income inequality are all related to poverty. These three factors have been described by Berberoglu as the “triangle of poverty” (Berberoglu, 2000). Neo-liberal policies as implemented in Egypt in the 1990s, instead of ushering in a competitive economy, were giving rise to conglomerates owned by politically well-connected families. Timothy Mitchell in a remarkable article about the reform program calls the success of the neo-liberal policies as just “political imagination” (Mitchell, 1999, p. 455). He describes the process by which the privatization program which earned the praise of the IFIs actually worked. According to him, the program did not lead to “a switch from state-run enterprise to a reborn private sector”. Instead, it was a “complicated adjustment of existing relations between public sector business barons and their partners in the private sector” (Mitchell, 1999, p. 460). In the end, the process served to “concentrate public funds into different hands, and many fewer”. He points to the emergence of family-owned huge conglomerates such as “the Osman, Bahgat, Seoudi, Mohamed Mahmoud and Orascom groups” (Mitchell, 19999, p. 462). These conglomerates were also in partnership with foreign investors. Their products and services were catering to the rich elite who formed about 5 to 10 percent of the Egyptian population.

How did the privatization and liberalization policies enrich the few? Mitchell points out that one of the ways the economy grew was through real estate. Massive suburban developments were going up to attract expatriate workers with funds earned in the oil-rich Gulf countries. These property developers were being subsidized through cheap land and transportation infrastructure provided by the state.There were many other such state interventions to shore up the private sector which was caught up in a frenzy of speculation and quick profit schemes. Mitchell details how the financial sector was bailed out by the government to avert defaults and bankruptcies.While government intervention was shoring up the fortunes of the rich and the politically connected, the rest of the population was facing withdrawal of government support and erosion in their standard of living. Real wages were either holding steady or falling. The ranks of the poor were swelling.

If the inequalities in urban areas was widening fast, it was getting worse in the rural areas. Neo-liberal reforms were introduced in agriculture in 1986. Under them, farm subsidies and marketing support were withdrawn and the Nasser-era cooperatives were rendered non-functional. In 1992, the Mubarak government passed Law 96. In one stroke, this law eliminated the rights of tenure for farmers conferred during the Nasser regime. It was done in the name of agricultural market liberalization. This process, as Bush observes, was "pushed by Deputy Prime Minister and Minister of Agriculture Yussef Wali….culminated in Law 96 of 1992" (Bush, 2004, p. 10). The impact of this law was devastating. Bush describes in detail how the relations between landlords and tenants changed in favor of the landlords who proceeded to raise rents and abrogate contracts, throwing hundreds of thousands to the ranks of the rural unemployed and poor.

Political Opposition

These cataclysmic changes which started as negotiating points in the context of the deteriorating economy in the 1980s and culminated in the 1990s as the SAP, did not go unchallenged. Political forces began realigning in 1987 when the Muslim Brotherhood (MB) allied with the Social Action Party. The National Progressive Unionist Party (NPUP),as Aoude notes, "called for the restoration of 'socialism' [state capitalism?] and an end to the *Infitah* and bourgeois factions associated with it" (Aoude, 1994). The NPUP and communists together represented industrial workers, small farmers and public sector workers. Their numbers were relatively small and lacked influence. In contrast, the religious opposition was large and much more influential.

The relationship between religious groups and the government in Egypt has a long and complicated history. Under Mubarak's emergency rule, opposition and dissent were regularly and brutally suppressed. The parliament was dominated by the NDP. Without any legitimate opposition voices, Egyptians turned to Islamists to rally and voice their grievances. The chief Islamists are the Muslim Brotherhood founded in 1928 by al-Banna as a charitable organization and an advocate of Islamic values. It grew to be a formidable force against the British occupation. When Nasser came to power, he at first accommodated to it. However, following an assassination attempt on Nasser on 26 October 1954, he cracked down on the MB by mass arrests and executions. When Sadat came to power, he allowed them to operate in social service and religious activities, as a counterweight to the leftists and Nasserites. When *Infitah* was introduced in 1974, however, the MB opposed it on the grounds that opening up to the West would erode Islamic values. It also opposed the economic opening as it would benefit only a few at the top, echoing the leftist view. A militant group called Jihad which split from the MB assassinated Sadat in 1981. Government response was swift and brutal. Even though the MB was not directly responsible for the assassination, thousands of MB members were arrested and detained.

Mubarak upon assuming power released the MB members and attempted to marginalize the radical Islamists in collaboration with the MB. Over the years, MB gained influence among the lower middle classes and was widely known for its network of social services. As the government was cutting public services under SAP in the 1990s, MB moved in with schools, health clinics and financial aid. The Mubarak regime was uneasy with political Islam.The MB was a seen as part of it. Things came to a head in 1992. On 12 October 1992, a major earthquake caused serious damage in Cairo. MB volunteers were quickly on the scene with medicine, food and financial aid. Government teams were slow and inefficient. Unable to face this humiliation, the government muscled in and announced that all aid must be channeled through government agencies and licensed NGOs. It did not stop there. Soon after, the Mubarak regime started a campaign of suppression of Islamists by banning all religious parties from running for parliamentary office. MB candidates had to run as independents. Thus, all opposition to the regime's policies was silenced. This did not mean that the MB disappeared. It just went underground as was its practice over the years when faced with suppression.

As the new millennium approached, Egyptian finances once again got into serious trouble. Deficits began to rise, exceeding the level of 1989-1990. Then came the U.S. invasion of Iraq in 2003. It raised oil prices and the Suez Canal fees. While these revenue sources provided a temporary respite, the fundamental problems of the economy remained largely unaddressed. Despite the IMF-sponsored SAP, the government did not stay within its means. As we noted, economic liberalization did not usher in a competitive productive economy. It actually created monopolies and oligopolies. The owners of these new enterprises, being well-connected to the regime, found all kinds of ways to get around paying taxes and got away with it.

This newly emerging business class began to assert its power by allying with the regime to influence policy. The aim was to further reduce the role of the state in the economy and create more space for private sector activity. To promote its agenda, the powerful business groups created a think tank, the Egyptian Center for Economic Studies (ECES). Rutherford provides a succinct summary of the ECES agenda. He writes:

> In some respects, the reforms that the ECES advocates are classically liberal. It calls for a more efficient, accountable, and constrained state. It supports a strengthening of the rule of law, and it advocates an expansion of some rights (particularly property rights). Yet, it goes a step beyond this classical view by calling for a strong state that intervenes in the economy to achieve specific goals, such as subsidizing key economic activities and sectors, improving education, strengthening social services, and regulating the markets. This is a muscular liberalism that requires a powerful and invasive state. But, the invasiveness is targeted and constrained. (Rutherford, 2000, pp. 217-218).

The ECES proceeded to produce a series of studies documenting the inefficiencies and advocating reforms. In contrast to the strong state advocated by ECES, Egypt was a weak state precisely in those areas highlighted by the ECES. The Mubarak regime which controlled all the political and policy levers was going its own way. Egyptians at large did not approve of those ways. That the regime was losing its support became apparent in the parliamentary elections of 1995 and 2000. Violence and massive fraud marked these elections. The NDP itself was divided and fragmented.It was in this context that Gamal Mubarak, the son of President Mubarak entered the governing body of the NDP in 2000. His rise within the party was meteoric. In 2002, he was appointed chair of the Policy Secretariat. This became his launching pad for generating new policy ideas. Gamal Mubarak brought in prominent businessmen into the Policy Secretariat. These businessmen soon occupied key posts within the NDP and began to enter parliament. Soliman describes how in the parliamentary elections of 2000 and 2005, these businessmen strengthened their position and gained growing influence by winning seats. (Soliman, 2011, pp. 145-149).

Both elections were marked by lavish spending. Soliman notes (Soliman, 2011, p. 146) that the MB also spent a lot of money in the 2005 campaign and captured 88 seats. While the business interests and the MB gained, representation of labor declined since the NDP did not run many labor candidates (Soliman, 2011, p. 146).The pace of government withdrawal from the economic arena intensified with the appointment of Ahmed Nazif as prime minister on 14 July 2004. He brought in prominent businessmen and technocrats to his cabinet. The Nazif government sped up the process of selling off public sector companies of all kinds, including energy, petrochemicals and financial institutions. Business rules and procedures were simplified. These changes met with approval from ISIs. The World Bank noted in its 2008 report that Egypt was the top economic reformer in 2006/7 (World Bank, 2007, p. 2).

Renewed Political Opposition

The speedy changes introduced from 2004 did not go unopposed. Leftwing intellectuals opposed the market reform on a principled basis. Their voice was feeble as the Left had been kept, "weak, divided, and lacking any national organizational structure" (Rutherford, 2000, p. 221) by the regime. As for the labor movement, it was also kept completely subservient to the regime. The workers most affected by the changes were the public sector workers. These workers are required to join their respective federations. On top of all these federations was the national body, the General Federation of Trade Unions (GFTU). The regime made sure that the top leadership of the GFTU was filled with regime supporters. When privatization proceeded, the interests of the public sector workers were not protected by the GFTU. Rutherford describes how the labor laws were ignored, evaded or flouted. He writes:

> It was common for firms on the verge of being sold to evade the ban on mass layoffs by undertaking a dramatic downsizing of staff immediately prior to the sale. They usually took the form of "early retirements" of thousands of workers. Under these plans, each worker received a lump-sum payment, combined with a monthly payment for life that was much lower than the pension he would have received had his factory remained state-owned. In other cases, pro-labor laws were simply ignored by the owners of the newly privatized firms. The regime was slow to prosecute these firms, and often allowed the transgression to pass without legal action.(Rutherford, 2000,pp. 226-227).

With the GFTU impotent to protect their members, protests came from another source: independent labor activists. Rutherford notes that these activists began to organize wildcat labor strikes and other labor actions without the permission of the GFTU (Rutherford, p. 227). These workers opposed market reforms as a way to preserve their jobs. They also went beyond just protecting their jobs. They wanted transparency and their legal rights to be respected. While these independent labor actions pointed to widespread opposition to the regime's policy, they did not slow down the pace of reform.The reform process set in motion in the new millennium brought about drastic changes to the Egyptian economy and society. The path was a complete break with the Nasserite past. There was no longer any hesitation in dismantling the public sector and moving the country towards a private economy. Aside from privatization of public sector companies, reforms affected the financial sector, regulations, property rights, tariffs and customs.

In the field of labor law, the government gave up its power to set wages and supervise the resolution of disputes between management and workers (Rutherford, 2000, p. 248). To get around bureaucratic control over business start-ups, the government set up investment zones with a single agency to deal with all the issues. In 2005, the government created special Qualified Industrial Zones (QIZ). These zones were already in operation in Jordon for a long time. Companies in the QIZs were allowed access to the U.S. market without tariffs provided a part of the input originates in Israel (Amin, 2011, p. 64). By so doing, some control over Egyptian industries was handed over to Israel which can "dictate which industrial firms in Egypt should flourish and grow, and which should shrivel and die out" (Amin, 2011, p. 64).While the government was loosening its grip over the economy, it was tightening its grip over authoritarian power. Amendments to the 1971 constitution were put to a referendum and declared passed in 2007. The amended constitution stripped all references to a socialist state. Article 4 reads as follows:

> The national economy is based on the development of economic activity, social justice, guarantee of different forms of property and the preservation of workers' rights.

Its political provisions while giving the impression of creating a better balance among the three branches of government,actually reinforced its authoritarian character by keeping power in the hands of the president and the ruling party. Analysts have pointed out that the amendments eroded human rights and blocked broad political participation, especially by the MB (Brown, Dunne and Hamzawy, 2007). In this polity, the new class of businessmen promoted by Gamal Mubarak by assuming direct political role emerged. As Soliman puts it, these business tycoons moved from an "owning" class to a "ruling" class (Soliman, 2011, p. 150). The businessmen, however, were not in a position to dominate. The Mubarak regime still held the levers of power. The businessmen were allowed to hold some of the levers.

What of the middle class? Over the years, the middle class changed its composition and became more heterogeneous. The *Infitah*, SAP of the 1990s and the privatization program of the 2000s affected different groups differently. Some flourished, some moved and others became unemployed. In all this moving and shaking, a prosperous new middle class emerged demanding fewer public services. Soliman notes that these new middle class members "send their children to private schools, receive medical treatment in private hospitals, and travel in private modes of transportation". (Soliman, 2011, p. 155).At the other end, the lower middle class, especially public servants, found their social and economic status to have deteriorated.

As for the working class, it was also undergoing profound changes over time. The Nasser and Sadat regimes depended on the support of the expanded public sector workers whose interests were protected with extensive subsidy programs. Although their syndicates were controlled by the regime, the workers accepted it in exchange for favorable treatment. From the 1970s to the early 1990s, the Sadat and Mubarak regimes maintained the subsidies despite continuous pressure from the IFIs. After the signing of the SAP agreement in the 1990s, these subsidies began to be scaled back. As the public sector was dismantled, thousands of workers were sent into early retirement without much choice. Thus, the working class was hit on both sides. Their jobs and subsidies were disappearing, eroding their standard of living. When privatization accelerated in the 2000s, especially after Gamal Mubarak and his associate's assumed central role in the reform process, workers joined many other groups in opposing the regime's policies.

The *Kifaya* (Enough) Movement

The wave of opposition to the regime was expressed in the form of the *Kifaya* (Enough) Movement. *Kifaya* was the slogan of the Egyptian Movement for Change which was founded in 2004 before the run up to the 2005 election. It was a coalition of people drawn from a wide range of ideological positions. The uniting factor was their opposition to the regime. The *Kifaya* Movement publicly challenged the Mubarak regime by calling for an end to its abuse of power. It also demanded that Mubarak step down and desist from paving the way for his son to succeed him. The movement did not succeed in achieving its goals. It never became a mass political movement and lost its influence. Nevertheless, it left behind a potent legacy for the Egyptian protest movement. A blog post at the Carnegie Endowment provides the following summary of the *Kifaya* Movement's role and importance:

> Although *Kifaya* did not achieve any of the sweeping political reforms envisioned in its platform, it did establish a new and important precedent by challenging the incumbent regime directly and by encouraging the formation of other groups, including the March 9 movement for university independence, Workers for Change,Writers and Artists for Change, the Egyptian Judges Movement. It also was the first political initiative in Egypt to truly explore and capitalize on new social media and digital technology as its main means of communication and mobilization. (Carnegie Endowment, 2010)

The April 6 Youth Movement

The digital technology was used again by the April 6 Youth Movement which was founded in 2008 to support workers planning a strike on that date. This movement continued its work all the way to the downfall of the Mubarak regime in 2011. Along the way, however, its leaders were harassed and arrested. Its website was hacked and disrupted in an attempt to muzzle its work. These efforts at suppression were becoming ineffective as the new technology was widely used to rally the opponents of the regime in unconventional ways. Also, defying the emergency laws, the working class members have been in a state of continual protest about wages and working conditions for years. Joel Beinin describes this revolt as follows:

> Since 1998 over 2 million workers have participated in more than 3,300 factory occupations, strikes, demonstrations, or other collective actions protesting low wages, non-payment of bonuses, wage supplements, and social benefits,and private investors' failure to uphold their contractual obligations to their workers. (Beinin, 2010)

The workers' protest gathered steam after the vigorous implementation of privatization and other reforms since 2004. In 2006, thousands of workers at the Misr textile works were on strike. In 2007, municipal real estate tax collectors stageda sit-in and gained a 325 percent increase in wages. They also gained the right to form an independent trade union (Beinin, 2010). In 2008, El-Mahalla El-Kubra went on a massive demonstration. This was the event that launched the April 6 Youth Movement. The workers' demands centered around their wages, working conditions and living standards. With the privatization drive, workers suffered "less job security, longer hours and lower standard of social services" (Beinin, 2010). Even though the workers were focused on their own interests and demanding redress, the continuous pressure they applied highlighted the inequities of the system and helped to rally other sections of the Egyptian society to demand change.

Egypt as it neared the downfall of the Mubarak regime was a deeply troubled, fragmented country.Except for a few at the top close to the regime, most of the country saw its standard of living decline. There was no recourse for the affected since the political system was dominated by a single party and all the institutions were controlled and manipulated from the top. The emergency laws in force since 1981 were frequently invoked to quell any dissent or opposition. Despite such controls, the conditions were becoming so unbearable that Egyptians risked organizing protests, especially after 2004.

The IFI View of the Egyptian Economy

Ignoring the rising unemployment, poverty,inequalityand inequities and all the protest movements, the IFIs were praising the performance of the Egyptian economy. The World Bank's Doing Business Report, 2010 ranked Egypt among the top 10 in the Arab world for the ease of doing business for the fourth time in 2008/9. (World Bank, 2010, p.3).On a global basis, however, this was not stellar performance. The same report ranked Egypt at 106 out of 183 countries.

The IMF, for its part, has consistently praised the Egyptian government whenever its policy recommendations were followed. In 2006, Egypt was commended for its "impressive progress" in privatization (IMF, 2006a).It praised Egypt for making "significant progress" in structural reform program and takingEgypt "along the road to a market economy" (IMF, 2006b). In 2008, the global economy was seriously affected by the financial crisis originating in the United States. Egypt was adversely affected as well. The economy slowed down and inflation was raging at 24 percent in August 2008. Yet, the IMF recommended subsidy reform and "the introduction of automatic adjustment mechanisms for domestic administered prices" IMF, 2008).In 2010, the IMF Executive Board, "commended the authorities' sound macroeconomic management and the reforms implemented since 2004" IMF, 2010).The IFIs, while praising structural reform and macroeconomic management, did not take into account the consequences of these policies on the majority of the Egyptian population. The Mubarak–led government also ignored these problems and proceeded to remove most of the food and energy subsidies while world commodity prices were experiencing a high level of volatility. With inflation, especially in food prices, continuing unchecked combined with rising unemployment and poverty levels, the Egyptian population was restive for change. With over a million internet users by 2008 and countless millions of cellular phone users, the organizational techniques of protest were beyond the control of traditional security methods.The flow of information across international borders was no longer under the control of governments.

The spark for change in Egypt was lit in Tunisia. On 17 December 2010, Mohammad Bouazizi, an unemployed university graduate who was forced to become a street fruit seller was harassed by the local police and died by self-immolation. Images of protest in his town of SidiBouzid were smuggled out and shown on Al Jazeera. Shocked Tunisians came out to the streets to demonstrate their anger at the regime. Massive 29-day protest resulted in President Ben Ali abandoning power and flying off to exile in Saudi Arabia on 14 January, 2011. Egyptian protests started on 25 January, 2011. Social media were used to bring crowds onto Tahrir Square. It was a leaderless movement with participants from a wide swath of the population regardless of "the division of class, age, religion and political affiliation" (Rizk, 2011).Despite many deaths and intimidation by security forces, crowds increased day by day. Finally, on 11 February 2011, it was announced that President Hosni Mubarak who ruled Egypt for three decades would stepdown.

Conclusion

This paper examined the political economy of Egypt leading towards the downfall of the Mubarak regime in 2011. It shows how the country moved from a public sector and import substitution industrialization economic growth strategy of the Nasser era to the market-oriented privatized economy of the Sadat and Mubarak ea. This whole process was largely directed from the top without broad political participation. It shows how weak the political institutions were in directing economic activity for the benefit of the country as a whole. It also shows how external factors and pressures affected the course of economic policy. Particularly, the pressure from the IFIs played a crucial role especially from the 1990s in the implementation of SAP. While the SAP brought about needed macroeconomic adjustments, it also contributed to rising unemployment, poverty and inequality. The deleterious consequences are predictable given the very logic of the SAP. Many other countries which have gone through SAP faced similar consequences. This, however, was not inevitable. Along with the SAP, the government could have instituted social welfare policies to counteract the impact on the poor and marginalized population. Egypt had no such policy and the IFIs did not pay attention to social welfare. The result was social and political conflict which ultimately led to the downfall of the Mubarak regime.

For all its faults and problems, the Nasser regime put equity in the forefront of its economic policy-making. That was the key to its popularity. The Sadat and Mubarak regimes moved away from equity considerations and attempted to promote economic growth through neoliberal policies advocated by the ISIs. Egypt ended up with a highly inequitable system with a few at the top gaining enormous wealth while the bulk of the population was immiserized. The protest movements that were running in parallel with the neoliberal policies were directedagainst such gross inequities and they succeeded in overthrowing the Mubarak regime by largely peaceful means. Looking to the future, what Egypt needs is renewed attention to equity. Egypt needs an economic strategy which pursues growth with equity and a political system which is transparent and participatory. The top-down approach has outlived its usefulness and is no longer acceptable to the new generation brought up in the age of the internet with their eyes open to new possibilities. There is also an important lesson for the IFIs. They can no longer afford to push their version of SAP ignoring local conditions and impact of their policies.

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