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**THE POLITICAL ECONOMY OF AUTHORITARIANISM
IN EGYPT: MANIPULATED REFORMS, UNINTENDED
OUTCOMES AND THE ROLE OF NEW ACTORS**

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Paper presented at the workshop on “The dynamics of change in the Arab world: Globalisation
and the re-structuring of state power”
Rome, 23-24 February 2007

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“Everything Has to Change So That Everything Can Stay the Same”

1. Background

The research project “The Political Economy of Authoritarianism in Egypt” is part of the *larger research programme* “The Dynamics of Change in the Arab World: Globalisation and the Re-Structuring of State Power” established by the International Affairs Institute (Istituto Affari Internazionali, IAI), Rome, and the Swedish Institute of International Affairs (Utrikespolitiska Institutet, UI), Stockholm; supported by La Sapienza University of Rome, Department of Oriental Studies, and Riksbanken Jubileumsfond, Stockholm.

Within the larger research project, there are *four national country case studies* (Egypt, Morocco, Lebanon, Saudi Arabia) to be executed, each covered by individual papers on the *three research sectors* security, political economy and political mobilisation and participation.

The author’s research on Egypt’s political economy will be summarized in a *country research paper* of about 20-25 pages (8.000-10.000 words), with the full draft of the paper to be handed in on June 31st, 2007, and the revised final draft provided on October 31st, 2007.

2. Points of Departure and Focus of the Research Paper

The Objective of Change from Above: Stabilisation of the Egyptian Regime and Restructuring of its Power System

The aim of the larger research programme that the paper is contributing to, is to elaborate new empirical data and a new conceptualisation of *change* in the authoritarian countries of the Arab world, including the related policy implications.¹ This is to be done in order not only to provide a solid foundation for a critique of the so-called *democratisation paradigm*, but – even more important – in order to present an alternative, hopefully more realistic and consistent conceptualisation of the ongoing processes of political and politico-economic change in the Arab world.

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¹ See Guazzone, Pioppi, 2006: Project description “The dynamics of change in the Arab world: globalisation and the re-structuring of state power”.

In 1990/91, the IMF and the World Bank imposed a Stabilization and Structural Adjustment Programme (SSAP) on Egypt. The reforms which have been implemented by the Egyptian government within the broader framework of the SSAP since the early 1990s resulted in a number of changes – some merely of a symbolic or cosmetic nature, others with far-reaching consequences.

The major point of departure for the research on Egypt is that this change, to a larger extent, has been carefully designed and consciously implemented by the rulers primarily *in order to stabilise Egypt's authoritarian regime* in the face of increasing internal and external pressure. According to the saying “Everything has to change so that everything can stay the same”², the major objective of the regime concerning the economic reform programme was just to reorganise and consolidate its power system – but, not to lay the foundations necessary to achieve a higher level of international competitiveness in Egypt's national economy. For the Egyptian case it already turned out that “economic reforms do not necessarily imply a loosening of the state's control over society, and, hence, the emergence of independent actors”, as Guazzone and Pioppi state in a more general way for the Arab World in the Research Programme description.³

As a result, in the Egyptian case there exists a certain interplay of stability and change: On the one hand, one finds a very specific interpretation of the concept of “*stability*” by the Egyptian leaders, meaning first of all the continuation of their own rule. On the other hand, there is *manipulated change*, engineered in order to contribute to the same objective – regime survival and preservation of power.⁴ However, in such a context, the dividing line between the concept of stability (with its rather positive connotation) and socio-political as well as socio-economic *stagnation* gets rather blurred.

Re-distribution - The Major Expression of the Dialectics of Stability and Change

This kind of change from above, intended to keep Egypt's power system functioning, and the interplay of stability and change mainly materialize themselves in ongoing *processes of re-distribution*. If one of the primary tasks of contemporary research on change in the Arab world is to identify the most relevant new developments and actors which shape dynamics in the region *below the level of full-fledged system transition*, these processes of re-distribution *are* such highly relevant new developments. Further, the analysis of the respective re-distribution processes also helps to understand the

² A quotation from one of the characters in Giuseppe Tomasi di Lampedusa's book on 19th century Italy, *Il Gattopardo*, written in 1958.

³ See Weiss, D., Wurzel, U., 1998: *The Economics and Politics of Transition to an Open Market Economy. Egypt*. Paris: OECD, Wurzel, Ulrich G., 2004: *Patterns of Resistance: Economic Actors and Fiscal Policy Reform in Egypt in the 1990s*. In: Heydemann, S. (Ed.), *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*, New York, N.Y.: Palgrave Macmillan, pp. 101-132, Wurzel, Ulrich G., 2000: *Ägyptische Privatisierungspolitik 1990-1998. Geber-Nehmer-Konflikte, ökonomische Strukturreformen, geostrategische Renten und politische Herrschaftssicherung*, Hamburg/Münster: Lit-Verlag.

⁴ This change for the sake of non-change also seems to contribute to the astonishing harmony which is frequently observable between the representatives of Middle Eastern authoritarian regimes – often denying “their” citizens the most basic human rights – and representatives of the West, i.e. European state officials. The latter seem to be more interested in control and “stability” than uncontrolled change, too.

changing positions, roles and relevance of a broader spectrum of political and economic *actors* in that framework.

The *concept of re-distribution* as intended to be used in the research paper describes a re-arrangement of Egypt's authoritarian rule (and the underlying resources) facing multiple challenges in terms of actors and issues. Such re-distribution is linked to push-and-pull-factors, with some internal and/or external influences exerting pressure, and others providing incentives:

(1) In the framework of the research on Egypt, "re-distribution" stands first for the redistribution of definition and decision-making power. The re-distribution of *definition power*, among others, concerns the right and ability to formulate broader visions for the development of society and economy at large, to identify relevant problems and to formulate general priorities for action. It further includes to give interpretations of events which are imposed at the rest of the society and to derive consequences for policy-makers in the public discourse (i.e., to prescribe appropriate action in the form of policies, strategies, programmes and measures). Implicitly, all this results in the ability to devalue and delegitimise the perception, world view, problem definitions and demands /claims of other actors in the society which, due to their limited capabilities and leverage, don't have the same definition power.

The re-distribution of *decision-making power*, concerns the ability to propose and push through decisions on all relevant levels of policy-making – from general decisions on the fundamental features of the system of state and society and basic principles for steering and managing public affairs (including the economy) down to specific policy measures to be implemented in particular circumstances (e.g., the timing, speed and extent of privatisation activities). Other issues are the different actors' influence on legislation (e.g., tax laws, labour code) and other forms of regulation, on foreign economic relations as well as the concrete framework conditions for the behaviour of microeconomic actors (entrepreneurs, workers) or their representative bodies, etc. The re-distribution of decision-making power will affect the established patterns of communication, co-operation and conflict within the ruling elite and within elite-coalitions and networks, but also the form of relations between the ruling elites and other groups of social actors in the society (e.g., independent entrepreneurs, journalists, intelligentsia, etc.).

A bigger role of particular segments of the society as power base of the authoritarian regime implies the marginalisation of other actors in terms of definition and decision-making power. The respective re-distribution of definition power, of decision-making power and of assets (see below) comes along with the *construction and re-construction* of ideologies, visions, discourse, meaning, concepts and terms by the most influential actors in ways compatible with their interests.

(2) Second, re-distribution is the re-distribution of *assets*, of *means of production*, and of *means of accumulation* – including opportunities to provide employment. This kind of re-distribution can involve changes in the relative importance of the *public versus the private sector* in the economy or concerning the role of *domestic versus foreign capital*. Further, it can imply changes of the economic weight of the rulers'

business cronies – trying to preserve the special arrangements benefiting them – *vis-à-vis new, independent entrepreneurs* pushing for a more level playing field, competition in markets and lower barriers for market entry (e.g. in the form of bureaucratic obstacles).

But, such re-distribution of means of accumulation and assets can also be limited to a simple re-arrangement among different factions and networks of state officials and their business cronies, i.e. changes of the balance of power *within* the established politico-economic elite.

In the Egyptian context, the effective *provision of employment* is an important contribution to the ruling *regime's legitimacy*. It is the more important, the more this legitimacy has been eroded during the last two decades as a result of increasing economic hardships for larger segments of the population and the lack of political participation. In the mid- to long-term, those actors which transform the economic privilege (that has been provided by the regime) through job creation into more legitimacy of the rulers, will become increasingly more important for the Palace.

(3) Third, the concept of “re-distribution” includes the re-arrangement of *access to goods and services*. In Egypt, as in many countries of the Arab world, this, again, may address the access to economic *privilege*. But it also includes the access to *public goods and services* in the traditional sense – including the obligations of different groups of economic actors to finance the provision of public goods through their contributions to the budget. Further, the changing patterns of distribution find their expression in the relation of *real income* from wage labour and employment compared to other forms of income (such as capital income, earnings from self-employment, direct and indirect subsidies to private business, etc.), among others linked to changes of tax codes and the like.⁵

Regime-directed Change versus Unintended Outcomes

However, the fact that such re-distribution and re-arrangement is carried out by Egypt's authoritarian rulers in order to secure their power *does not exclude* the possibility that this very process (or some parts of it) may get out of control: Suddenly – in spite of all the top-down manipulation and planning – the regime-directed project of re-distribution and re-arrangement of power may take a turn that was not intended.

As a matter of fact, even in the seemingly rather stable setting of the authoritarian regimes of the region, there are *always new developments emerging* which are not in line with the original intentions of the rulers. Those situations – when control over a process initiated from above cannot be maintained any longer and when new actors arrive on the scene – are particularly interesting for any research on change in the Arab world. Among others, the proposed paper, therefore, will focus on identifying these

⁵ In addition, “re-distribution” also means the re-definition of the *politico-economic importance of individual Arab states*. This kind of re-arrangement of roles and importance in the regional and international context, among others, is the result of different economic development paths and development results across the Arab countries – see the different evolution of the GCC countries as compared to countries such as Algeria or Syria for example.

newly emerging and unintended processes of change, their outcomes and the related change agents.

3. General Organisation of the Research

Time Period Covered, Main Issues and Research Phases

While the country paper on Egypt's changing patterns of accumulation and distribution will deal with the entire *time period* that begins with the proclamation of fundamental economic reforms in the early 1990s up to now, the major effects of the reforms will be analysed primarily for the period from the mid-1990s to about 2005/06.

For the reasons outlined above, *the paper will mainly deal with two different kinds of politico-economic changes*: On the one hand, there will be a focus on the processes of change which have been *consciously designed and implemented* by the rulers in order to stabilise the existing system and to preserve their power, including the outcomes of these attempts. On the other hand, the research will be interested in those changes which have been resulting from *unintended, emerging new developments* which the government could neither prevent nor fully control. In the overall framework of the collective research programme of IAI and UI, the latter may even be of higher interest than the former.

Therefore, the first sub-area of research in the Political Economy Research Sector – (1) The Modalities of Wealth Accumulation and Redistribution under Economic Reform – will be at the centre of the analytical part of the proposed research paper. The other two sub-areas – (2) The Changing Role of the State in the Provision of Social Welfare Services and (3) The Changing State-labour Relations – will be of less importance to the paper and will be dealt with mainly based on *new empirical data* and the *description* of ongoing processes of re-distribution in the respective areas. From the perspective of the proposed paper, the latter two research areas are sub-issues of the first one.

Phase 1: The main activity of the first research phase will be the *identification and categorisation* of important and/or particularly representative processes of change in wealth accumulation and distribution. This will be an effort that includes both descriptive and analytical elements. It is planned to analyse the respective internal or external reasons and motivations which led to the above-mentioned re-distribution processes (drivers for change) as well as the specific interests of relevant stakeholders (the different categories of actors). Further, the *resulting new developments and tendencies*, which have been kicked-off by the state-directed re-distribution activities (intended and unintended) will be described and evaluated.

Phase 2: Afterwards, the short- to mid-term *consequences* of these changes for Egypt's broader politico-economic setting will be analysed and discussed. The lead questions for this research phase will be:

- How are ruling coalitions reorganising in the context of economic reforms?

- Who gains and who loses from the process of the state's economic reorganisation?
- How is the social basis of the regime changing in that context?
- How are global structural trends and international/regional actors affecting the process of the state's economic reorganisation in Egypt?

Phase 3: Finally, the findings generated so far for the Egyptian case will contribute to providing answers to the major questions of the broader research programme, dealing with

- the differences of today's Arab regimes compared to their predecessors in terms of social bases and ruling coalitions, the distribution of resources, modes of governance and political discourses;
- the interaction of structural change in the Arab world with change at the global level and with specific actors' policies as well as with
- the mid- to long-term internal and international consequences of that change.

Hypotheses

(1) The economic reforms announced by Egypt's government were never intended to provide the framework conditions necessary for the establishment of Egypt's international competitiveness. On the contrary, the whole reform attempt was instrumentalised in order to get access to additional rent income that would sustain the current regime's economic and political power (and the underlying structures) despite its obvious financial crisis. There has been *no substantial change* concerning the authoritarian and patrimonial nature of the system. – However, despite all attempts of the rulers to preserve the established power system, change *within* the authoritarian regime has been occurring during these reforms (and as their result).

(2) With regard to the deliberately designed and consciously implemented re-arrangement of the system of authoritarian rule, the Egyptian regime has been aiming at a number of rather clear objectives (intended outcomes). These included, on a more general level, the restructuring of the Egyptian regime's external relations (e.g. negotiating external rents and conditions) and of the internal system of distribution of resources (e.g. co-opting new social groups and excluding /marginalising others).

(3) Political and economic "reforms" in Egypt, such as privatisation, aim at and result in a *shift of patronage networks* toward particular segments of the private sector (including the networks of high-ranking representatives of the state with the private business community) without undermining the power of the state as the ultimate source and distributor of rent.

(4) It is obvious that Egyptian-style political and economic "reforms" so far did not lead to a loss of the state's control over society, or to the emergence of independent actors. However, *unintended outcomes* are always possible – even with regard to the emergence of new politico-economic actors (e.g., private businessmen which try to avoid dependency on the regime and its top figures, sometimes openly distancing

themselves from the rulers; independent trade unions challenging the monopoly of the state-controlled unions).

(5) There exist a rather limited number of *scenarios* concerning the most probable outcomes of the processes of re-distribution and re-arrangement within Egypt's authoritarian regime. The three most probable are:

- Scenario #1: The consolidation of “neo-authoritarian political regimes”⁶,
- Scenario #2: The return of more populist and nationalist forms of authoritarianism (ibid),
- Scenario #3: Increasing influence of particular segments of the private business community on the state (both domestic and foreign capital), possibly accompanied by a change in the authoritarian nature of the state.⁷

(6) The externally imposed reforms and their local interpretations contributed to a general re-structuring of the state's economic functions. There are *particular patterns* of how the structure of state power in Egypt is changing with regard to the political economy of the country (i.e., a limited number of typical patterns of the internal process of state restructuring), including the specific modalities of wealth accumulation and re-distribution.

(7) With regard to the changing role of the state in the provision of social welfare services, the distributive implications are *negatively affecting* social cohesion and the ruling elites' legitimacy. Among others, state-labour relations change in a way that is likely to impact negatively on equity (in terms of economic distribution). Authoritarian restructuring leads to social conflict, as well as to reinforcing clientelist social relations and informal networks of solidarity (family, religious etc), possibly leading to a *further fragmentation* of the society.

(8) The negative outcomes of authoritarian restructuring for major parts of the population could create their own dynamics of *growing internal opposition*. Under certain circumstances, the new dynamics of such opposition – together with new room for opposition activists resulting from globalisation (information, external support, protection through world-wide media coverage, etc) – may lead to the transformation of traditional power. However, at the moment this option seems to be a rather theoretical one. Further, there are particular necessary and sufficient preconditions for the emergence and “success” of such internal opposition (which have to be explored).

⁶ “This is a scenario in which the state increasingly represents the sum of the private interests of the members of the regime and is less and less accountable to its own citizens (privatisation of the state)” accompanied by fragmentation and an “increase in informal modes of government (neo-patrimonialism, corruption), with a parallel political and economic marginalisation of large social sectors” (Guazzone and Pioppi, p. 6).

⁷ For the time being, this scenario seems to be a rather theoretical option. It can only come true only if Egypt's capitalists – which are often heavily dependent on the state in terms of protection, privilege, etc. – manage to transform themselves into a self-confident and independent bourgeoisie in the narrow sense (a “class in itself and for itself”).

(9) The ongoing “*reforms*” reinforce the control of Egypt’s elites over resources as well as the politics/logics of rent seeking. The social basis of the Egyptian regime has been changing in a way that increases the importance of the newly emerging elite being a melange of higher government officials (civilian and military) and outstanding representatives of the possessing classes. These new networks of business cronies, state officials with close business links and leaders of the military-industrial complex increasingly gains importance vis-à-vis the former support base consisting of the rural population, the urban working class and lower to medium ranks of the public sector and civil service.

(10) The most important *actors* which are actively involved in the process of economic reorganisation of the Egyptian state are high-ranking state-officials together with a limited number of business cronies. The privileges of some outstanding businessmen imply restrictions for the majority of small- to medium-scale Egyptian entrepreneurs. The social actors which are increasingly marginalised are the landless labourers in the countryside, small farmers and the lower and medium ranks of the public sector workforce, civil service and intellectuals of various professional backgrounds. (Informal sector suffering from trade liberalisation?). The workforce in the private sector enjoys much less protection than the public sector workers, unionisation levels are low, labour code violations are wide-spread.

(11) The internal process of *state restructuring* is partly related to (or: a reaction to) the dynamics and consequences of the (albeit very slow) *integration of Egypt into a globalised politico-economic system*. The shape that the ongoing neo-authoritarian transition in Egypt takes is an expression of the adaptation capacity of the regime – its different elements are influenced by internal and external constraints and opportunities (SWOTs). With this regard, global structural trends and international/regional actors have been affecting the process of the state’s economic re-organisation in Egypt. However, it seems that external influences have *not* been very important when it comes to the concrete design and implementation of the restructuring of the authoritarian state: Considerations of domestic politics, control and preservation of power seem to have shaped these decisions and restructuring processes much more than external economic events and interventions.

4. The Empirical and Methodological Basis

Desk Top Research

The paper will be based on both desktop and field research. Besides a general review of the recent literature on Egypt’s economic and political reforms since the 1990s, desktop research will be concerned mainly with the *collection of economic data and facts* which are relevant with regard to the above-mentioned processes of economic re-distribution and re-arrangement of economic power among the different groups of actors.

Such data include, first of all, *general economic data*, primarily on investment and employment, production and growth, etc – all to be analysed with a focus on the contribution of different economic sectors and groups of actors to Egypt’s overall

economic activity (e.g., public versus private sector, different sections of the public sector affiliated with particular power centres such as the military versus other parts of the public sector, private sector business cronies of the rulers versus independent entrepreneurs, domestic versus foreign capital, regional distribution of particular economic activities, etc).

Second, available data on the distribution and re-distribution of *income and wealth* will be collected and analysed. Here, the major objectives are (i) to identify relevant *channels or instruments* which are used by the regime for the re-arrangement of the authoritarian state and its economic functions (e.g., the re-distribution of wealth among different groups of actors) as well as (ii) to identify changes which represent the *outcomes and results* of particular re-distribution processes which take place within the overall process of economic state restructuring.

Third, the *structural changes underlying* the newly emerging patterns of wealth creation and distribution, which have been identified in the previous stages of research, will be analysed. This includes to (i) take stock of relevant legal, institutional and other changes (e.g., labour law, tax provisions, court rulings, economic support measures such as granting subsidies or establishing special economic zones, etc) and (ii) to identify their direct and indirect impact on the observed processes of wealth creation and re-distribution.

Fourth, as far as possible, also the dynamic mid- to long-term effects of those changes for capital accumulation, production and distribution shall be addressed, mainly through the analysis of data sets covering longer periods (which, hopefully can be linked to the aforementioned events initiating structural change).

Field Research

The desktop research activities will be complemented by a *four-week field research mission* to Egypt. Field research will be carried out through a number of pre-arranged, explorative interviews with representatives of different groups of relevant actors as well as with researchers working on the economic and political reform processes in Egypt (and other informed observers).

Semi-standardised interviews with government officials, representatives of different factions of the private business community and of different branches of the public sector, with members of professional associations and trade unions as well with representatives of political and civil society organisations are intended to shed light on their particular perception and valuation of the ongoing processes of change (which will be primarily shaped by their own positions, roles and interests).

Interviews with Egyptian academics and researchers at national and private universities, in government-funded as well as independent research institutes and with experts of international and supra-national organisations, foundations, embassies, etc, are scheduled in order to be able to discuss and evaluate the findings from other sources with these rather neutral and well-informed partners.

In addition, the field mission is also intended to provide access to recent, often still unpublished data and documents concerning the major issues of the research project.

Methodological Approach

The findings generated during the desktop research activities and the field mission will be analysed and interpreted both in quantitative as well as qualitative ways. However, the bigger part of the research results is expected to be presented in qualitative terms. Quantitative data (if available in sufficient extent and quality) will mainly be employed in order to prove and support the qualitative statements and to illustrate the general developments and tendencies which have been identified regarding the restructuring of the authoritarian state and its economic role in Egypt.