

# Neoliberalism and Revolution in Egypt

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ERIN COX, APR 24 2015

Egypt has long been a donor darling within the Middle East and North Africa (MENA) region. Since the 1980s, Egypt, under the close watch of then President Hosni Mubarak, was praised by Western donors as a neoliberal success story (Osman, 2011: 57, Afrika, 2001: 5) labeled a “worlds top reformer” by the World Bank for four consecutive years (World Bank, 2010). The US Government alone has distributed close to 114 billion USD[1] in economic and military aid to Egypt for its geo-strategic importance and regional influence, much of which has been predicated on the implementation of neoliberal reforms (Huffington Post, 2013; Sharp, 2014).

Yet from a Marxist perspective, Egypt exemplifies many of the adverse affects of neoliberal reform on underlying class dynamics. Neoliberal policy often (purposefully) assumes an inadequate understanding of national development needs, de-prioritizes participatory methodology, and fails to address structural underpinnings that create unrest within a developing country. As such, between 1980 and 2010, the Egyptian elite successfully implemented neoliberal economic policies whilst retaining political control through the exploitation of middle and working class citizens. This enabled the Egyptian elite to implement a form of crony capitalism through directing state resources into the hands of a few at the expense of the many – further exacerbating class differentiation within society (Bogaert, 2013).

The majority population who participated in the 2011 Egyptian revolution did so amidst significant marginalization and disenfranchisement as their country pursued accumulation by dispossession and reforms failed to “trickle down” to the masses (Roccu, 2013:425). Drawing on these assertions, this essay seeks to trace the effects of Egyptian neoliberal economic, political, and social policy reform since the 1980s by examining the historical basis of cries for “Bread, Freedom, and Social Justice” heard during the 2011 revolution. In doing so, the essay will detail three significant elements of the society’s transition to neoliberalism, including (1) privatization of industry, (2) decentralization of government, and (3) the removal of the welfare state. By exploring the various theoretical underpinnings of neoliberal policy, the essay will demonstrate how the demands of the Egyptian public can be seen as incompatible with neoliberalism (Hanieh, 2013:9). It is within these circumstances that one can derive the ideal conditions and class dynamics for revolution within Egypt.

### Egypt’s Neoliberal Transformation

Fundamentally, the rise of neoliberalism represented a wider ideological shift following three decades of “golden years” under Keynesian economics throughout the latter part of the 20<sup>th</sup> century. It was an abandonment of the developmental state, reasserting market-driven liberalization as the single most important element for proper state development. While liberalism is seen as purposeful spontaneity of the market under the enforcement of universal rules (Hayek, 1967), the term neoliberalism can be closely correlated with David Harvey’s definition, under which:

“Neoliberalism is in the first instance a theory of political economic practice that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework, characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices...but beyond these practices the state should not venture” (Harvey, 2005:2).

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Under this definition, neoliberalism encompasses a wider range of elements including the reconfiguration of political and social dynamics within society. To this end, in order for the implementation of the economic aspects of neoliberalism to be successful, a reorientation of the state is often required – acting as a facilitator and remaining detached in the way that the state governs, administers policies and services, and interacts with citizens.

Prior to 1980, the Egyptian government pursued a highly nationalistic, developmental approach to state building. Often called “Egyptianisation,” the period closely followed Keynesian economic theory, which asserted the necessary role of the state in providing equal access to employment and welfare programs amongst citizens. Through this interpretation, Egyptian President Gamal Abdel Nasser nationalized significant portions of the state including land and industry, while establishing strong welfare programs (El-Mahdi and Marfleet, 2009:34). Many Egyptians continue to idealize this period, where unemployment and inflation were at record lows under Nasser’s idea of “social justice, progress and development, and dignity” (Osman, 2011:52). Progress was recognized internationally and the World Bank began to compare Egypt’s developmental approach with the success of emerging markets like South Korea (Osman, 2011: 57).

Following the end of Nasser’s presidency, state priorities began to shift. President Anwar Sadat’s *infitah* (opening) was meant to modernize development and remove what he interpreted as oppressive governmental restriction on economic growth (Afrika, 2011: 12; El-Mahdi and Marfleet, 2009:34). By adapting a Weberian state model through the dissolution of state ownership, Sadat’s *infitah* overturned large-scale nationalization programs instituted under the Nasser regime. Within this, the Egyptian government would begin widespread accumulation by dispossession that led in part to massive external debt, corruption, and poverty throughout the country (El-Mahdi and Marfleet, 2009:55). Then, as a desperate means to overcome the external debt and financial shock, President Mubarak assumed office and led the Egyptian state in formalizing its alliance with the United States, adopting many of the neoliberal policies outlined in the Washington Consensus[2] (Osman, 2011:130,182). This would be the start of the polarization of classes that would grow throughout the next 30 years, eventually culminating in the Egyptian revolution in 2011 (Osman, 2011:139).

Although it is not within the scope of this essay to examine the entirety of neoliberal policies and their effects on the widening social and class gap within Egyptian society, the following three sections will detail aspects of Egypt’s adoption of neoliberal policies starting in the 1980s. As such, they will draw on the various economic, political, and social aspects of the reorientation of the state – equating each reform to the widening class gap and as contributing to the 2011 demands for “Bread, Freedom, and Social Justice.”

## Privatization

The first and most comprehensive of Egyptian reform was implemented through the privatization of land and state-owned enterprises. When President Mubarak assumed power at the end of the 1970s, Egypt had mounting external debt, growing income inequality, class separation, and continued citizen disillusion with the role of the state. Under these conditions, Mubarak and the US entered into the Economic Reform and Structural Adjustment Program (ERSAP). Under the program, the International Monetary Fund (IMF) and World Bank introduced a series of macroeconomic reforms that would restructure the Egyptian economy. This involved the offloading of significant portions of state-owned enterprises for cash in order to reduce external debt, improve economic growth of stagnant businesses, and stabilize the economy (El-Mahdi and Marfleet, 2009:45).

Through the implementation of these initiatives, 118 of the state’s largest companies were privatized in favor of competition including those related to electricity, water, sanitation, irrigation, health care, transportation, telecommunications, and education (El-Mahdi and Marfleet, 2009:4). By the end of the 1990s, the ERSAP was recognized as a widespread success in restoring economic prosperity to Egypt (Afrika, 2011: 5), whereby significant portions of proceeds went to the Ministry of Finance to reduce the budget deficit. As such, the IMF ranked the implementation of privatization initiatives in Egypt as the fourth most successful globally (Osman, 2011: 141, 142).

Yet the privatization of state companies led to the offloading of employees and overhead costs to make companies market competitive, and over half of all state-employed workers were fired between 1994 and 2001 (Hanieh,

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2011:24). The privatization of companies enabled the Mubarak administration to socialize losses and privatize gains, often through public-private partnerships that contracted out portions of companies and exemplified by the removal of regulations and barriers to investment (Osman, 2011:141; Hanieh, 2013:133-137). This initiative continued to push significant numbers of workers into the informal sector, leaving them outside of traditional regulation and protection from the state that resulted in deprivation of rights and reduction in wages (Roccu, 2013:434). From a Foucaultian perspective, these citizens were meant to transform into empowered labor participants through governmentality and dispossession of means of livelihood, seen “not as a burden but as a potential resource” (World Bank, 1991: 122,123). Instead, the newly empowered citizens, who were expected to self-start their participation in the privatized economy, “didn’t have the energy to focus...given deteriorating socioeconomic conditions,” (Snider and Faris, 2011).

As such, the privatization of industry demonstrates the ideological shift in the state from accountability to citizens to accountability to the market. Increased exploitation and extraction of labor through deregulated industry enabled the state to further accumulate wealth and surplus, to which it simply redirected into the hands of the elite. The availability of jobs dropped significantly, workers were increasingly ostracized and exploited, and with food prices rising as a result of export dependency, the separation of class dynamics grew. It was under these conditions, in part, that the 2011 Egyptian demands for “bread” were made (Tadros, 2012).

## Decentralization and Good Governance

At the time of the Egyptian revolution, 5% of the country’s elite controlled 40% of the wealth, and the government was notoriously filled with leading businessmen and wealthy families who had assumed rent-seeking, neo-patrimonial political power for decades (Osman, 2011:127). The 1990s marked the second wave of privatization and economic reform driven by good governance programs and the Post-Washington Consensus, meant to roll back the centrality of the state and encourage governments to operate “closer to the people” (World Bank, 1997). Yet there was an absence of real political reform amidst economic policy promotion – and the same political party continued to control government throughout IMF reforms in Egypt (Osman, 2011:183). Here, closely aligned with Harvey’s interpretation of neoliberalism, the state would act as a “facilitator” through decentralization of government responsibility and targeted institutional reform (Harvey, 2005:2; World Bank, 1997). Yet in many cases, despite decentralization of the state both vertically to local governments, and horizontally to NGOs, private firms, and non-state actors, underlying political authority (purposefully) remained within central state control.

To this extent, the adoption of the good governance and pro-democracy agenda has often been criticized for allowing elite political and business executives to profit from privatization and neoliberal reforms, exemplified by rent-seeking behavior and the legitimization of their rule (Ibrahim, 2011: 1349, 1350, Hanieh, 2011:127). Thus, by redirecting government responsibility, the “inclusive neoliberal” reforms founded on New Institutional Economics created a “democratic deficit” within Egyptian society (Sending and Neumann, 2006:655). Further, the country had operated in a State of Emergency since 1967, enabling the state to operate outside of rule of law through a form of State of Exception to limit dissent among citizens, restricting freedom of assembly and enabling government surveillance (Wikileaks, 2011). While this concept was not new under neoliberalism, it enabled the state through governmentality to “arranging things” so that “people, following their own self-interest, will do as they ought,” limiting freedom to a restricted, pre-selected space (Scott 1995:202).

Democracy was consequently limited to the “institutional-technical,” leaving little room for substantive debate and inclusion and excluding other forms of political orientation (Tagma et. al, 2013:380, 387). Further, the limited political space that was developed during this time meant to “constrain an agitated country” without extending significant political reform and reform the corrupted system of checks and balances within government (Osman, 2011: 186). This has led to the establishment of a “low intensity democracy” — encouraging limited democratic engagement and welfare promotion only to the extent needed for neoliberal policies to flourish, failing to encourage popular political participation in a meaningful way (Gills and Rocamora, 1992:501). Under these conditions, the Egyptian people had no formal avenue to present opinions concerning government reform, thus the Egyptian public called for “freedom.”

## Elimination of the Welfare State

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Under neoliberalism, the idea of the welfare state, a cornerstone of developmental policy that encouraged the state to evenly distribute and make available basic rights to citizens, was abandoned. Through this mentality, and the rolling-back of the state and privatization of significant portions of state companies, the IMF ERSAP revealed deep cuts to welfare, pensions, and subsidies (Osman, 2011:182). This transition represents the broader ideological shift in the role of the citizen within the state. Whereas the idea of social justice under the developmental state represents fair and equal distribution of collective goods by the central government, under neoliberal social policy the self-interested *homo economicus* were expected to compete for access to limited resources, stimulating growth by directly engaging actors and provoking their independent will to survive.

In Egypt, amidst rising unemployment and inflation rates, diminishing state protection and welfare, and an absence of a liberal democracy, citizens demanded a renegotiation of the social contract with the state during the revolution. Under the decentralization and privatization reforms, minority groups, women, and working class members of society suffered most, plagued by the extractive nature of the nation's political elite. This deficit led to the rise in workers' unions throughout the country since the 1970s, seen as a social force for counteracting the repressive nature of Mubarak's regime (Hanieh, 2013:386). To this extent, the unions released a statement on their demands for greater social justice following the Egyptian revolution. These included minimum and maximum wages, decriminalization of workers, right to form union that are independent of state-run syndicates, reduction in corruption, expansion of health care and social programs, guaranteed housing, education, and medical treatment (Leber, 2013). The lack of social justice is epitomized in the state's limited ability to provide subsidies to the poor by phasing out programs, and amongst those subsidies that are provided, they are often limited in scope, quantitatively assessed, and fail to reach the poorest of the poor (Galal, 2013). It was under these conditions that the Egyptian public demanded "Social Justice."

## Revolutionary Consequences

From a Marxist perspective, the implementation of liberal ideology and neoliberal reform has exacerbated class dynamics, led to rising economic inequality, and encouraged state capture. In this sense, under neoliberalism the Egyptian state "was able to provide Egyptians with growth without equity, education without inspiration, employment without security, health services without care and voting without any real impact on the political process," (Ibrahim, 2011: 1347). Furthermore, the privatization processes in Egypt enabled elite bureaucrats to shift patronage towards the private sector without "undermining the power of the state as the ultimate source of rent" (Bergh, 2012: 304). As a result, the decline of middle and working classes through income redistribution methods favored "tycoon capitalists linked to the regime" (Kandil, 2012: 197), and for the first time members from the middle and working classes joined together to protest in early 2011 (Ibrahim, 2011: 1348). According to David Harvey, the emergence of anti-capitalist movements has linked the middle and working classes – "constituted out of a broad alliance of the discontented, the alienated, the deprived and the dispossessed" (Roccu, 2013: 424).

The transition from the developmental state to neoliberalism agitated social inequality and poverty throughout the country. Citizens protested rising inflation and unemployment across socioeconomic sectors, increased human rights violations and repression, and a declining access to basic welfare services throughout the country (Ibrahim, 2011: 1348). Under these conditions emerged the "Tale of two Egypts" – allowing Egypt to operate under the "politics of presentation" by distributing two views of the state, seen by the international community as a stable, prosperous and progressive state and through the repressive and exclusionary experiences of the poor (Ibrahim, 2011: 1350). Economic liberalization initiatives that enhanced overall GDP and growth rates were celebrated in the international community, who assumed a Weberian, top-down viewpoint on development. Meanwhile neglecting middle and working class citizens through an absence of accountability mechanisms, increasing corruption, and lack of equal distribution of services (Ibrahim, 2011: 1348,1349)

Thus the economic and political reforms within Egypt since the 1980s had created the emergence of two dissatisfied classes – those from the middle class who were becoming increasingly more dissatisfied with the regime and the deteriorating political and civil rights in the country; and those from the working class who were directly affected by neoliberal reform through dispossession (Roccu, 2013: 435). As such, the culmination of dissatisfaction and marginalization of class divisions within the country can be seen as closely correlated to the implementation of the

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various economic, political, and social aspects of neoliberal policy for the last 30 years (Bogaert, 2013:231). As such, the two-sided dynamics that encompassed the two Egypts led to the interrelation between “poverty and wealth, accumulation and dispossession, and domination and oppression” that culminated in the 2011 Egyptian revolution (Bogaert, 2013: 231). It was within these circumstances that both middle and working class citizens called for “Bread, Freedom, and Social Justice” as an escape from exclusionary tendencies of neoliberal policy reform since the 1980s.

## Conclusion

When examining the implementation of neoliberal policies in Egypt, one can clearly see the retentive nature of the core-periphery World Systems mentality. As the core class continues to implement economically exploitative policies through extraction of resources, the elite bureaucrats retained their political and economic monopoly through rent-seeking behavior. The core institutions of neoliberal reform – privatization, decentralization and good governance, and the removal of the welfare state led to increasing class dynamics that were often overlooked when considering neoliberal reform from a westernized, Weberian perspective.

When viewed more broadly, the implications of neoliberal reform and its tendency to create “uneven, institutionally hybrid, and chronically unstable” forms of governance exacerbate underlying class tensions through failed wealth distribution can be seen throughout the world (Peck et. al, 2012: 268). Similar underlying conditions can be seen in other countries, where many are suffering from economic exclusion and worsening class dynamics as a result of neoliberal policy implementation post Cold-War, leading to a worldwide expression of neoliberal discontent and the importance of neoliberal alternatives (Bogaert, 2013: 232; Peck et. al, 2012:283-286).

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[1] Adjusted for inflation.

[2] A carefully crafted set of policies meant to encourage privatization, deregulation, free-market policies, and minimal government intervention through decentralization of responsibilities both vertically and horizontally. First

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drafted by John Williamson in 1989 and later used to exemplify US policy through Structural Adjustment Programs (SAPs).

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