

Interactions of Economic and Political Change: The Egyptian Case

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Summary. — Partial indicators of economic change in Egypt suggest that the real rate of growth and the rate of inflation have been higher than official statistics. Investment and consumption have both grown rapidly. The private sector has responded strongly to new opportunities. Large-scale migration of Egyptian workers of all types to the Arab oil countries has reduced the unemployment rate substantially and created shortages of some types of labour. Economic changes have interacted with political changes which are characterized by a higher degree of participation and a slow and inconsistent movement toward liberalization. Economic interests and autonomous political groups generate pressures that are far more comprehensive than yet recognized.

1. INTRODUCTION

Important political and economic changes have occurred in Egypt in recent years. A start has been made in dealing with the major social and economic problems which must be overcome in order to generate sustained development. A new set of circumstances and pressures has been created for the economy, the political system, the government and bureaucracy, and for those external agencies which are assisting in Egypt's developmental programmes. The object of this paper is to contribute to a better understanding of the changes which are taking place. Unless these are evaluated correctly, future policies will miss both the new problems and the opportunities.¹

In the analysis of the Egyptian situation, the usual emphasis is on stagnation and obstacles to change.² a low rate of overall economic growth, especially as compared to the growth in population; dramatic increases in the balance-of-payments deficit, due mostly to imports of consumption goods; an unusually high proportion of current consumption in the national income and a correspondingly low level of domestic saving; a high rate of inflation; extensive domestic price distortions with consequent inefficiencies in production and distribution which also arise from bureaucratic sources; a slow and cumbersome economic

decision-making machinery in the government and an apparent absence of cogently planned policies in a number of critical areas; domestic political liberalization which has been more superficial than real and only marginal changes in fundamental political processes with widespread, genuine participation not yet achieved.³ In the conventional view, these difficulties mean that conditions will worsen still and Egypt will become 'the Bangladesh of the Middle East'.

Recent developments suggest that this pessimistic view of the Egyptian economy and polity, though containing important elements of truth, is not fully accurate. However, since

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faint hopefulness with respect to Egypt runs the risk of being labelled as rash optimism, the necessary caveats should be made at the outset. It is not our view that the major problems of Egyptian political and economic development have already been overcome; but we argue that concentration on the conventional difficulties may lead to failure to recognize the manner in which the country is being transformed, and the opportunities as well as the problems which will appear. Positive changes, however fragile, must be taken into account, and incipient dangers must be recognized as well.

The recent evidence from the polity and from the economy indicates the following six distinct, but related, characteristics of the Egyptian system which suggest the kinds of major changes underway:

- (a) macro-economic evidence that growth is being understated;
- (b) large-scale labour migration to the other Arab countries that generates marked impacts on the economy;
- (c) emergence of a vigorous private sector that creates further impetus for the expansion of the economy and liberalization of the polity;
- (d) continued expansion of the government's social welfare policies that emphasize distributive equity;
- (e) restructuring of domestic politics and the emergence of strong cross-currents both toward and away from a more open polity; and
- (f) emergence of political groups that claim public attention, but remain outside the purview of dominant political discourse.

In assessing these changes, we will point to the convergence between economic and political transformation as well as to the autonomous developments in the political sphere, both of which will define the nature of domestic policies in the years to come. Finally, we conclude with an overall assessment of the implications of these factors for the major developmental tasks facing the country.

2. EVIDENCE FOR GROWTH: UNDERSTATEMENT OF GROSS NATIONAL PRODUCT

It is important for the formation of macro-economic policies to have a correct assessment of the levels, growth rates, and composition of the national product and its components. This is always difficult in developing countries and

particularly when there are major transformations such as have occurred in Egypt in recent years.

Table 1 presents the official estimates of gross national product for Egypt for the years 1972 - 1976 measured in millions of Egyptian pounds at current prices. The associated annual growth rates are also shown. Unfortunately, it is not possible to infer from this data what real changes have been occurring since there has been a substantial rate of inflation. Indeed, if Egypt has suffered from inflation at rates corresponding to those which have prevailed in many other countries during the same period, it is possible that there may have been only negligible real changes.

Unfortunately, there are no reliable official price deflators for the Egyptian national-income accounts. Moreover, there are reasons to believe that the Egyptian national-income accounts, like those of many developing countries, suffer from important errors of estimation. It is, therefore, important to attempt to develop independent insights into overall growth patterns. However, any such attempt must also be regarded cautiously because it must necessarily be less comprehensive than a properly prepared set of national-income accounts. Nonetheless, there is evidence, necessarily less complete than the national-income accounts themselves, that produces a cumulative impression: the Egyptian economy has had respectable overall growth rates in the last several years and the rate of investment and savings has grown rapidly

(a) *The implications of the velocity of circulation*

Changes in the income velocity of money provide one of the most striking suggestions of a higher rate of real growth and/or a higher rate of inflation than officially recorded. The income velocities of money are the ratios of the

Table 1. *Egyptian gross national product in current prices (million £E)*

	GNP	Growth rates (%)
1972	3380.1	7.3
1973	3625.5	12.7
1974	4085.0	15.4
1975	4713.0	20.4
1976	5674.0	

Source: Ministry of Planning.

gross national product to the money supply, in its various definitions. In the Egyptian case, whatever the definition of money which is used with the official national income estimates, the conclusion is the same: a rapid decline in the income velocity began in 1972. Throughout the late 1960s and the first years of the decade of the 1970s, the income velocity, using a money definition which includes demand and savings deposits and certificates, was 2.5 or 2.6. In 1972 this velocity fell by 8%. The rate of decline accelerated in 1973 and 1974 and then levelled off in 1975 almost 25% below its earlier stable level. Statistical regression of the velocities of circulation, using either a cash and demand deposit definition of money or adding savings deposits and certificates, showed no evidence of a temporal trend from 1960 to 1972. Focusing on the velocity, computed using the M_1 definition of money as cash plus demand deposits, there was a drop of 5% in 1972. The December 1972 figure was 8% below the June 1972 number. The 1973 velocity was 12% below 1972 and the 1974 velocity was more than 13% below 1973. By the end of 1974, the velocity was one-third lower than the level of 1971.

The calculated reductions in the income velocity of money are the results of substantial increases in the money supply without corresponding increases in the measured gross national product at current prices. The stimulus to the money supply arose mainly from the government deficits financed by central bank credit. However, there were also large increases in loans by the banking system to productive enterprise, both public and private. A counteracting influence from the unfavourable balance of payments would, in itself, tend to reduce the amount of money in circulation. But this negative influence was not powerful enough to offset the increases in domestic credit.⁴

If the money velocities are taken at face value, they would indicate a major change in money holding habits by the population, as if the reaction to the increases in the money supply were simply the holding of larger shares of assets in the form of money. Yet there appears to be no evidence for this type of reaction. And there are no grounds for believing that suddenly major errors began to appear in the money supply estimates. The income velocity calculations point an accusing finger at the national income estimates, suggesting that the latter totals may be too low.⁵

In order to exemplify the implications of the change in measured money velocities assume that the previous relation between money and

income had remained stable and that the money supply data are correct. What then would be the implications for the GNP? The results for 1973, 1974 and 1975 are shown in Table 2, comparing the gross national product estimated from money supply and income velocity data with the actual gross national product data used by the Ministry of Planning.⁶ The calculations lead to much larger numbers for GNP, reflecting the corresponding changes from officially reported money velocities. In 1974, the difference between actual and calculated GNP was 45%. In 1975, the difference was 56%.

The alternative calculations of GNP in Table 2 should themselves be regarded sceptically and are not in any sense offered as estimates of the true values but rather examples of the implications of the past patterns of GNP/money ratios. While the large changes in the income velocity calculated from official statistics are implausible, neither is it necessary that the historical patterns should have continued to prevail in a strict manner. Nor is it possible, as noted above, to distinguish the effects in the estimates of real changes from those of general price inflation. It is more plausible to assume that there was some significant price inflation, accompanied, however, by some, perhaps substantial, real growth. Further evidence, presented below, supports this judgment.⁷

(b) *The evidence of electricity production*

It is not possible to dissect the calculations which lie behind the national income estimates in order to identify more precisely the changes in real output. The production data which is publicly available is mainly in current prices so it already embodies the effects of price changes. Yet some of the piecemeal information on real output which is available tends to confirm the inferences raised above. The rate of growth of

Table 2. *Actual compared to notional estimates of GNP in Egypt, 1973-1975*

	Actual GNP (million £E)	Estimated GNP (million £E)	Difference (%)
1973	3778.4	4779.4	26
1974	4154.0	6027.4	45
1975	4847.0	7605.4	56

Source: Actual GNP: Ministry of Planning, *Unified Accounts and Statistical and Analytic Data for the Period 1970-1975* (revised estimates).

electricity production which was 7.4% from 1970 to 1971 and had fallen to zero between 1972 and 1973, accelerated to 14.9% from 1973 to 1974, 15.3% from 1974 to 1975, 18.8% from 1975 to 1976, and 21.6% from 1976 to 1977. The growth rates after 1973 are historically, and also by comparison with other countries, quite high. No new capacity came on line in 1973, so the growth cannot be explained as the result of breaking of capacity bottlenecks and meeting pent-up demand. Rather, it appears that there were increases in demand absorbing the output of previously under-utilized capacity. Since electricity is widely used both in production and consumption, the remarkable growth in its production in recent years suggests the plausibility of rapid, if not correspondingly high rates of growth in net output.

(c) *The evidence of import flows*

The extraordinary deficits in the Egyptian balance of payments have been conventionally attributed to imports of consumer goods. There is no doubt that imports of consumer goods in real terms have grown quite rapidly, achieving a 9.7% average annual rate of increase from 1970 to 1975, with most of the growth in the first 3 yr. Consumer goods imports grew 18.5% from 1976 to 1977 in current prices. However, real imports of intermediate goods have also grown substantially from 1970 to 1975, though at a lower annual rate of 7.5%. From 1976 to 1977 the growth of intermediate imports in current prices was 20.6%. But real imports of capital goods have grown at an average rate of 21% from 1970 to 1975, faster than the growth of either consumer goods or intermediate products. The growth rate of capital goods imports in current prices from 1976 to 1977 was at 45.4%.

The implications of import growth are not unequivocal, of course. It is possible that there have been massive increases in inventories rather than use of intermediate imports for manufactures and of capital goods for capacity creation. Such inventory accumulation might reflect a speculation in commodities against a devaluation of the pound or hoarding against future foreign exchange shortages. Yet inventory holding also has costs which are an incentive for their use in production. Moreover, it is unlikely that inventory accumulation would account for the increases in imports of capital goods which are not usually held in inventories.

Thus the import evidence not only suggests that the stereotype of an Egyptian consumption

binge is inaccurate but that the rapid increase in investment goods imports has been helping to create the basis for future real growth in production.

(d) *Other evidence on domestic investment*

Gross investment in Egypt appears to have been stagnant, or even declining, for a number of years during the 1960s. In the aggregate for some years it was 12% or less of measured gross national product. Some major new investment projects, such as the High Dam and the steel complex at Helwan, would, themselves, account for a large part of the total. Since depreciation is often 5% of GNP, there may actually have been disinvestment in some sectors of the economy to permit the major projects to go forward. In contrast, in the mid-1970s, according to both the national income accounts data and the data on physical production and use of essential components of investment, there has been rapid growth in investment. In current prices, total investment as measured in the national income accounts grew in 1974 by roughly 46% over 1973 in value terms; in 1975, the increase was 82% as compared to 1974; in 1976, however, the growth was only 5.7%. Any plausible deflator would still leave impressive increases for the period since 1973.

The general impression of the national account estimates of the growth of investment tends to be verified by data on the production and use of major components of fixed investment. For example, annual cement production has ranged from roughly 3.3 to 3.5 million tons in recent years. But, in the last several years, exports, which previously had been at a level of about one million tons, have virtually halted and cement has been imported, at a rate of over 1.3 million tons in 1976, for example.⁸ Similarly, the import of steel reinforcing bars, which had been negligible in the early 1970s, has grown substantially. Domestic production of these bars runs about 220-260 thousand tons per year. In 1976, there were imports of 350 thousand tons.⁹

Investment is reported to have been constrained in 1976 by the rapidly growing balance-of-payments deficits which were, in turn, controlled by limiting investment. This should be interpreted as evidence of the strong stimulus from new investment which exists.

As noted, imports of all investment goods grew more rapidly than imports of consumption and intermediate goods. More detailed data reinforce this observation. For example,

machinery and equipment imports rose by 60% in 1974 over 1973 and base metals and manufactures rose by almost 150% in the same period with substantial growth continuing in 1977 after a slow-down in 1976. Thus, while there can be little doubt that consumption growth is providing a substantial impetus to the Egyptian economy, similarly there can be little doubt that investment growth is also pushing hard on available resources.

This inference is strengthened by examining the growth in outstanding loans to productive enterprise, both public and private. The growth in lending to the private sector accelerated sharply after 1973, reaching rates of 40 and 50% in 1974 and 1975 before declining to 29% in 1976, when foreign exchange stringency forced drastic reductions in bank lending for imports. The growth in lending to public sector enterprise was almost as high, at 49 and 42% in 1974 and 1975, respectively, and also declined to 38% in 1976.

The balance-of-payments deficits and high levels of consumption are, in themselves, further circumstantial evidence of a booming economy. The income which is being used to purchase foreign and domestic consumption goods is not being generated by government transfers alone, nor do those account for the high proportion of investment goods among imports. It is more plausible that high levels of investment are, in turn, pushing consumption.

This re-examination of the components of the national income accounts strongly contradicts the conventional stereotype of the Egyptian economy which emphasizes the stagnation and lack of initiative in the economy. Serious as those impediments might be, the economy appears to have advanced rather rapidly since the new policy directives of 1973.

It must also be emphasized, however, that the progress which has been identified has, to a large extent, been sustained by loans and grants from abroad on an extraordinary scale for Egypt. The Egyptian economy is not at this time viably self-sufficient. Yet these foreign inflows have not been entirely lost in increased consumption, as has sometimes been implied, but have sustained real growth.

3. THE EMERGENCE OF THE PRIVATE SECTOR OF THE EGYPTIAN ECONOMY

Certainly one of the major structural transformations in Egypt since 1973 has been the

strong emergence of the private sector. There has been no reduction in the extent of control of the major industries and production establishments of the public sector, but rather a rapid growth in those areas which are privately organized. As a result, any doubts that may have prevailed as to whether the private sector would respond to the opportunities which were created for it in 1973 must rapidly be disappearing.

Again, the evidence is partial and incomplete but, in the aggregate, persuasive. Private sector output was about one-third that of the public sector in 1970, according to official statistics; by 1976 the ratio was almost 43%, with all of the relative growth occurring after 1972. There was, in fact, an enormous decline in industrial output of the private sector in the stringent conditions of 1972 and 1973, suggesting it was the 'residual' sector, receiving material inputs only after the major needs of the public sector firms had been met. In each of the 3 yr after 1973, industrial production by the private sector grew at much higher rates than in the public sector. The continued dominance of heavy industry by the public sector and its visibility in large-scale firms can easily obscure the fact that the character of Egyptian industry is being transformed.

Table 3 presents official estimates of gross fixed investment in the public and private sectors respectively and, within each, in the various areas of economic activity measured in current prices. These data certainly overstate the real changes which have occurred, but show reasonably well the relative magnitudes and changes. This table makes it clear that the public sector is clearly the largest in terms of the amount of investment undertaken. In both the public and private sectors, investment according to these data was relatively stagnant until 1973, when investment in the public sector grew by 28% over previous levels. It was not until 1975 that private sector investment rose substantially over previous years, but in that year the growth was spectacular, to a level over three times the previous rates. The data in Table 3 does not indicate the slow-down in the private sector in 1976 which the output data show, but does suggest a slowed public sector investment rate in that year with a rapid recovery in 1977. Evidence of the relatively rapid growth of credit to the private sector in the early 1970s suggests that the absolute as well as relative growth of the private sector may have started even earlier. The growth and vigour of the private sector is also shown by the 80% increase in its exports of

Table 3. *Distribution of gross fixed investment in the public and private sector by economic activity 1970-1977 (million £) (current market prices)*

Activity	Private sector										Public sector						
	1969-1970	1970-1971	1971-1972	1973	1974	1975	1976*	1977*	1969-1970	1970-1971	1971-1972	1973	1974	1975	1976*	1977*	
Agriculture, animal husbandry and fishing	2.7	2.9	1.9	2.1	2.5	6.0			58.6	50.4	42.0	55.5	51.7	77.3			
Mining and industry	3.2	3.0	6.0	6.0	3.5	25.0			89.1	89.7	116.1	120.0	186.4	239.9			
Petroleum and its products									30.8	33.0	23.3	28.3	41.1	117.4			
Electricity	1.0				0.3	0.5			27.3	23.1	21.3	30.3	30.0	49.3			
Construction	4.3	8.5	4.1	6.8	4.0	24.8			2.4	8.9	5.5	5.0	10.3	22.3			
Transport	1.0	1.0	1.5	1.5	3.0	4.0			67.1	72.7	75.5	116.2	18.6	348.9			
Wholesale and retail trade									2.2	8.4	3.3	1.3	3.7	6.7			
Finance and insurance									0.9	0.6	0.8	0.4	0.1	1.5			
Housing	25.0	20.6	21.5	20.7	15.6	45.6			11.5	5.9	8.3	19.6	35.9	123.7			
Public utilities									10.9	16.8	16.9	22.8	28.7	39.2			
Services	1.5	1.2	1.1	1.5	1.5	1.7			16.5	14.8	20.4	27.7	42.4	70.1			
Total† (excluding land)	38.7	37.2	36.1	35.6	30.4	107.6	236.0	255.0	317.3	324.3	333.4	427.1	448.9	1096.3	1089.0	1436.4	

Source: Ministry of Planning, *Unified Accounts and Statistical Data for the Period 1970-1975* (revised estimates).

* The data for these years are from a separate report of the Ministry of Planning and are not reconciled with previous years.

† Totals compiled from the components.

manufactured goods from 1973 to 1974 as compared to a roughly 45% increase in public sector manufactured exports in the same 2 yr. In 1975, exports of manufactures by both sectors declined, with private sector exports falling the most, perhaps reflecting a diversion of production into the rapidly expanding domestic market.

Structural transformation by dilution of state socialism has few precedents. History has recorded many cases of the emergence of state control and the growth of public enterprise in developing countries; transformation through growth in private enterprise is extremely uncommon. Yet the Egyptian economy is not 'undoing' the socialism of the 1960s, but rather supplementing it with a rapidly growing private sector which is the source of much of the current dynamism. This phenomenon is a new and distinctive feature of Egypt's economy.

4. THE SIGNIFICANCE OF MIGRANT LABOUR FOR THE EGYPTIAN ECONOMY

A third major type of evidence on recent economic conditions in Egypt is related to transformations in the country's labour force.¹⁰ Egyptian labour has long been viewed as relatively abundant, largely unskilled, politically passive, and a source of pressure on public enterprise employment. The large-scale emigration of Egyptian labour is creating both a major change in relative resource scarcities internally and an important source of foreign exchange and growth for the economy as a whole.¹¹

In 1965, it was established that Egyptians living abroad amount to no more than 100,000.¹² By 1976, the census put this figure at 1.4 million, including dependents. These new figures indicate that a large-scale movement of Egyptian labour toward other Arab countries has occurred in recent years.¹³ While there is a history of migration by Egyptian intellectuals, the character as well as the size of overall migration has changed. Recent data reveal that the migration of Egyptian labour to other countries in the Middle East includes skilled and unskilled labour as well as professionals.¹⁴ Moreover, it appears to be mainly short term in nature, that is, of 1-4 yr duration, rather than permanent.¹⁵ This short-term and impermanent nature of the emigration means that the net savings of the emigrants will return to Egypt within a relatively short period and, therefore, should be counted as part of the Egyptian national product.¹⁶ The remittances which are

currently being sent back to Egypt are only part of the savings of the migrants which eventually will return.¹⁷

It is understandable that in Egypt, as in other countries, the difficulties of estimating net wage income earned abroad after foreign consumption should lead to the omission of this item. There is some evidence that emigrant remittances are now used as an estimate; even so, the failure to do the accounting correctly can distort the view of the current state of the Egyptian economy. The effects on domestic consumption of the earnings of migrant labour which are sent home do appear in the national income accounts. The savings by migrant labour ought also to appear in the national income accounts. But, since that estimation is never attempted, the result is to increase the apparent ratio of consumption to gross national product. If emigrant remittances are used to estimate savings by migrant workers, that reduces, but does not eliminate, the error as long as remittances are less than savings as would appear to be the case on *a priori* grounds.

Careful estimation of the implications of the rapid growth of emigration and resulting remittances requires more data than are now available, but some rough calculations will indicate orders of magnitude and the potential significance of migrant earnings. Suppose that the number of Egyptians working abroad is taken to be 1 million of the 1.4 million emigrants.¹⁸ This figure amounts to roughly 10% of the labour force. The income differentials between migrant workers, as compared to domestic wage incomes, has been estimated, at from five to 10 times.¹⁹ Thus the total wage income of migrant workers may be from 50 to 100% of domestic wage income.

But the consumption abroad by migrant workers must be subtracted to obtain the net additions to the national product. If consumption abroad is 80% of migrant incomes, perhaps a high figure, so that savings were only 20%, the net addition to Egyptian national wage income would be 10-20%. If the consumption rate by migrants were 60% of their income and the savings rate 40%, the net addition to wage income would be 20-40%.

For the purpose of exemplification, assume wage income to be 60% of national income. Then the net addition to national income by migrant workers abroad might range from 6 to 24%. These are substantial amounts to be omitted from the national income accounts. It should be noted that as long as the number of non-permanent migrants is growing, this underestimate will, in turn, grow and will continue to

give an erroneous view of the economy. In fact, in 1977 immigrant remittances were officially estimated to be about £E2 billion.²⁰

It was previously noted that remittances need not be associated with current saving but rather are flows from accumulated funds. These flows may well lag behind savings abroad, if reports are correct that there is some accumulation of funds which is repatriated only when workers return home. If we assume that migrant workers do send back two-thirds of their current savings, that adds 4–16% to domestic purchasing power. Even if remittances are included in the national income, there will still be an underestimate which may be as large as 8%.

Suppose that current remittances are intended mainly to finance consumption in Egypt, while current saving abroad may or may not be used for that purpose. That will raise the consumption rate, while the omission of foreign savings does not raise national income. This mistake in national accounting – which is not unique in Egypt – could be in part responsible for the prevailing view of a high-consumption/low-saving economy.

The massive migration is also changing the basic conditions of labour supply and forcing adjustments which are beginning to run through the system.²¹ Though there has been controversy about the magnitude and location of unemployment and underemployment in Egypt, there were few persons who would have suggested that, overall, unused labour amounted to much more than 10–20% of the labour force in the mid-1970s.²² Yet more than 10% of the labour force has emigrated from Egypt. Thus, the general effect of the emigration has been to wring much, if not all, of the surplus labour out of the economy. At the same time, however, there may well be some 'brain drain' effects that result in shortages of certain skills, most notably the more technical ones.

The impact of labour migration has not been the same in all sectors. The consequences for Egyptian wages in those private sectors of the economy in which foreign demand for labour competes most directly with domestic demand are clear, for example, in the construction industry, where wages have risen rapidly.²³ Many other adjustments will have to take place before the relative labour availabilities will become more uniform across the economy.²⁴ Some of these adjustments may be blocked so that the effects of migration on domestic labour will be concentrated in specific sectors.²⁵ But there is no doubt that the adjustments to growing labour scarcity are already in progress and will spread.

5. EXPANSION OF SOCIAL WELFARE POLICIES

The emphasis, since 1973, in Egyptian national policy on openness to private economic initiative could easily give the impression that there has been a decline in the public responsibility for distributional equity. In fact, major changes in this respect have almost surely operated to improve the relative position of the poorest people. Before 1973, direct subsidies to reduce the cost of living were relatively small, but after 1973, these subsidies grew rapidly. While the criticism might be made that there has been only a slow and inconsistent growth in the staple grain consumption *per capita* for almost 15 yr, the important point for assessing recent consumption patterns is that the Egyptian consumer was virtually insulated from the worldwide scarcities and high prices of foodgrains of 1972–1974. Table 4 presents the subsidy expenditures of the General Authority for supply commodities for the years 1973–1977. The reductions in subsidy levels since 1975 reflect, in large part, reduction in world prices.

Table 4. *Subsidies of the General Authority for Supply Commodities*
(million £)

	Wheat and flour	Maize	Edible oil	Sugar	Other	Total
1973	79.0	4.4	16.8	19.0	17.0	136.2
1974	216.4	16.5	55.3	68.9	36.1	373.4
1975*	259.6	31.1	75.1	21.8	43.7	431.3
1976*	185.0	30.2	67.1	0	88.0	370.3
1977*	166.1	24.2	61.4	0	76.5	328.2

Source: Ministry of Planning, *Unified Accounts and Statistical and Analytical Data for the Period 1970–1975* (revised estimates).

* Preliminary.

The size of the food subsidies has been the subject of complaints by international agencies as a major source of the large balance-of-payments deficits of the country.²⁶ However, they must also be regarded as an important means of offsetting inequalities in the distribution of income. For example, among rural families the share of the total consumption expenditures on all foods averages 50% for all income groups and was as high as 74% for some of the lowest-income groups. For urban families, the average share spent on food was 50% and was as high as 70% in the lowest levels of income. Thus the food subsidies represent a major addition to the real income of the Egyptian people.

Similarly, in other areas in which government contributes directly to welfare, real expenditures have increased. Real expenditures on social security increased by 31% from 1969–1970 to 1971–1972 and by 47% from 1971–1972 to 1975. Public health expenditures in real terms increased by 5 and 35% in the corresponding periods.²⁷ Despite still rapid rates of population growth, these increases represent real improvement *per capita*.

No one would claim that the administration of the increases in the expenditures designed to improve welfare directly have been carried out expeditiously and efficiently.²⁸ It is not even certain that the new levels of welfare and equity in income distribution are maintainable. Nonetheless, the achievements have not only been substantial in real terms, but their political consequences have been profound. It may not be possible for any government in the future to fully retract what has been given to the people and also stay in power. The impression of such an attempt in January 1977 was accompanied by rioting on the largest scale yet seen in Egypt. Thus in still another way, Egypt has transformed itself and the new achievements have created new problems.

6. IMPLICATIONS OF DOMESTIC POLITICAL CHANGES

On the political side, the major transformations are, by now, also well recognized, though debates continue as to their extent and significance.²⁹ To a large extent, the liberalization of the economy has for some years been accompanied by an analogous development in the polity. Among the more distinctive features of political change are the following:

First, there has been a new acknowledgment of the importance of parliamentary politics

with the implications of greater legitimacy for wider political participation. Implementation of parliamentary procedures in Egypt is beginning to replace the essentially administrative political organization so dominant during the past 20 yr. Parliament is assuming a position of importance that cannot be ignored.

Second, this participation is being encouraged and supported by the regularization of procedures for competitive politics. In many parts of the country elections have appeared to be fiercely competitive, replacing the more reserved participation that was characteristic of politics over the past two decades.

Third, competitive political behaviour is also being engendered within the parliament itself. Parliamentary committees are being organized which debate the government's platform and proposed economic, political and social policies.

Fourth, public debates are being conducted in open forums, supported by active, though still relatively controlled, media. With some reversions and inconsistencies, for a time political liberalizations had even been extended to the press, radio and television coverage. Parliamentary and other political debates are now given wide publicity.

Fifth, political parties have been consolidated and new groups have been formed and have been disbanded since the 'open door' policy. In the 1976 parliamentary elections, three political parties were formally recognized as legitimate: the Centre, the Right and the Left. This has been followed by evidence of a growing movement toward consolidation of other and possibly related political groups. New political parties were officially formed, including a revived Wafd Party and a new 'Socialist Party', inheritors of the Young Egypt mantle. At present, there appears to be considerable flux in party politics; the Wafd has been submerged again and the left-wing movement is constrained in its activities. Political groups also include the fundamental religious elements, and the 'Nasserites' who reputedly support socialist expansion. A new official government party has been created, currently superceding the Arab Socialist Union. However, the future of other parties and their inter-relationships remains unclear.

Sixth, participation has contributed to interest aggregation, in the formation of political groups, and in interest articulation, in the effort to incorporate, wherever feasible, new interests within the structure of the country's official political parties.

Although the government has allowed

political discussions to some extent, the government has also tried to reduce differences in views expressed and prevent deviations from official policies. The more open polity – from 1971 to 1977 – has created a more liberal political atmosphere. But the events of January 1977 and subsequent developments resulted in greater political control. The recent press censorship may indicate yet a new degree of possible repression. As a result, two conflicting trends have emerged; one for the encouragement of political participation; the other for constraining that participation within some restrictive bounds.

The implication of the foregoing is that there presently exists a potential for generating interactions and pressures between the developments created by the liberalization of the economy and those engendered by a more open and more liberal polity. The more recent retrenchment of this opening of the polity does not completely negate the effects of the initial moves. Domestic political liberalization has self-reinforcing tendencies, since public debate is now viewed in more legitimate terms than in the past year, and the representation of interests is now regarded as a more fundamental feature of the Egyptian polity. Repression against a context of economic liberalization may be difficult to sustain. Once political freedoms are extended, they cannot readily be retracted.

7. PUBLIC ADMINISTRATION, POLICY FORMATION, AND ECONOMIC GROWTH

While the conventional view of Egyptian administration as a heavily bureaucratic, control-ridden and highly inefficient system cannot be denied, it is useful to put this view in the perspective of recent developments. Some of the changes have added to the burdens of the bureaucracy, and others have provided new impetus for more effective management.

The 'open door' policy has engendered greater interaction between the government and international agencies and private organizations concerned with the country's financial difficulties. The World Bank and the International Monetary Fund, regional organizations such as the Kuwait Development Fund and other Arab institutions placed pressure on the government for increased evidence of rational planning. This is true also of the bilateral organizations such as the US Agency for International Development and the numerous international banking and business groups. These pressures may be contributing to

the development of an environment where bureaucratic performance in implementing plans is more closely scrutinized. Whatever the previous inadequacies, in the new bureaucratic environment there is strong pressure for the exercise of greater administrative effectiveness, both to obtain and to use resources.

Economic growth and expansion have contributed to the development of new groups with new economic interests. It is ironical, therefore, that in spite of the greater scope of political discussion, there has also been a notable absence of recognition of implications of economic changes and growth on the character of the country's polity. The growth of the private sector is leading to the development of a clientele for government policies and programmes that has been, as yet, neither organized nor vocal. New economic resources are becoming available, leading to the possibility of new debates as to the proper and preferred means and directions of allocation. New interests are being created, with new incentives for placing claims on these resources. The government has acknowledged the importance of its previous commitments, sometimes even expanding these commitments, as in the extension of its social welfare policies. In the process, the government will come into contact with, if not itself create, new interest groups. These changes may even affect the military establishment as well. As labour becomes increasingly scarce, the drain of entire cohorts into military service will be seen as an important subtraction from the potential industrial labour force. Thus, military force planning will become part of the new economic and political calculus. These multiple considerations have contributed further to numerous cross-pressures which influence the nature of domestic politics.

8. AUTONOMY OF POLITICAL PRESSURES

The growing interdependence of economy and polity is only one of two important changes that bear on the performance of the country's political system. The other, quite different, but also important, is a new degree of autonomy of the political sphere. The liberalization of domestic politics had made it possible for political groups of diverse persuasions to surface, make demands upon the system, and place additional pressures that are distinct from those generated by economic change. Political changes stimulate the formation and organization of political group-

ings that may not necessarily have common economic interests, but are tied together by underlying political or ideological interests. Attempts to legitimize other political groupings than the political parties now represented in parliament do not incorporate all of the existing interests. The recent reduction in political liberties has constrained, but not eliminated, competitive political activity.

For example, the discrepancies between Parliament's official parties and the country's political groups is evidence of the lack of 'fit'. The Wafd Party was officially reconstituted in 1977 and within a year dissolved itself in protest, a fate that is testimony to this predicament. As a result, a large portion of the organized and politicized public would remain outside the pale of legitimate political organization. As long as this lack of 'fit' applies only to a marginal segment of the public, its implications for political change will be negligible. But when existing political institutions are applicable to, and cover only, parts of the politicized public, then that increases pressures for further institutions. These can be constrained only at a cost.

While it is difficult to draw any strong generalization concerning the nature of different political groups in Egypt today, the *prima facie* evidence suggests that they represent the entire political spectrum, ranging from fundamentalist, religious rightist movements, to possibly equally fundamentalist, leftist groups³⁰ as well as a variety of secular groups. For the most part, they are still largely marginal to the political system; they are not necessarily identified with specified economic interests; they are not part of the 'legitimate' dialogue; and they do not now appear to have the strength to draw mainstream political support. The demands made by some of these new groups may be so peripheral to the country's central concerns as to be perceived as radical and unacceptable. However, in the course of making these demands, they may threaten the established regime and engender a formal response in the nature of greater governmental control of political activity. The current political composition of the parliament illustrates the extent to which new political interests are, or are not, represented in existing institutions. Yet even those omitted cannot be totally ignored.

It is also unclear whether the visibility of emerging political groups results from the initial liberalization of the polity – and that they were there all along – or whether it reflects a new strength and new opposition to the government. Their specific connections with other

Arab countries are also ambiguous, although there are frequent suggestions of financial moral support. This ambiguity serves only to further confuse any attempt to gauge their strength. The sources of internal support for such groups are unclear. The evidence from other developing countries suggests that it is not the migrants to the city that become politicized, but rather those that have been there for a while who recognize the potentials in political activism.³¹ The same may be true in Egypt. In the past, the universities have served as a source of political activism. Today, they may be the recruiting ground for political groups with fundamental religious overtones. In a country where the universities have been one of the most politicized institutions, it will not be readily possible to reduce their significance as a base for political organization.

These observations point to political activity that does not emerge as a direct by-product of economic change, but as the result of the articulation of *political* concerns. The most vocal of these groups are the religious fundamentalists.³² Their opposition to the existing polity has a variety of sources; rejection of the values of modernization; rejection of the new political liberalization and the political institutions; and a rejection of the benefits of economic growth for social change. Challenges to governmental policies and parliamentary institutions have already emerged from these groups.

There are other political groups that have become more visible during the past year or two. Yet, by contrast, they pose little challenge to the prevailing political values, and tend to view both polity and economy as a conduit for the pursuit of their objectives. In these cases, political goals have their economic counterparts.³³ Such groups have taken advantage of a more open polity and begun to surface in their efforts to organize. They will have the effect of widening the framework of political dialogue in the country. They will seek greater representation in the political institutions, and they will try to challenge the open polity and domestic liberalization. This support will help to legitimize them and provide greater scope for their activities. Their presence will also be the major challenge to the robustness of present trends toward political representation. But they will seek to protect that representation and to support the government toward that end. These groups are generally more central to mainstream political orientations.³⁴ They vary in potential strength and sources of support; yet with few exceptions they have historical

antecedents and draw on an earlier membership and leadership.³⁵

What still remains unclear in Egypt today is which groups will be acknowledged as legitimate and which will not. To be effective, that decision will have to be supported by more than the present leadership alone. It is one that, directly or indirectly, will affect the entire politicized public and will bear upon the stability of the political system.

As noted above, there is yet another type of autonomous pressure on the political system that may become increasingly important, namely, that emanating from within existing institutions such as the military, parliament, and the bureaucracy. Although the military created the revolution which led to the present government, it has become increasingly depoliticized. Yet, there is evidence of dissatisfaction with some political decisions.³⁶ The interests of the army cannot be ignored by the leadership, nor can its reaction to the political leadership's decisions be overlooked.³⁷ So far, the army has remained outside politics. The separation of army from politics may continue while the political system appears viable and stable. Assuring that viability may thus become of paramount importance to the government.

Parliament has become a public forum. It is now a vehicle for voicing objections – albeit in restrained tones – to government policies.³⁸ While parliamentary debates have been restrained, continued limitation may become more difficult if members can find an independent constituency. At this writing there is public discussion of the reorganization of both party politics and parliamentary processes. This reorganization is alleged to be of a more controlled direction, in the sense of placing specific limits on political participation and determining the framework for this participation.

Further, there may also be new bureaucratic pressures. High-level permanent civil servants have long shaped the implementation of government policies. This will continue. The bureaucracy will not develop as an independent challenge. So far, the bureaucracy appears to have been a willing, even eager tool of economic liberalization and expansion. Whether this will continue if its powers are curtailed is still an open question. An unsupportive bureaucracy can be a political liability of major proportions for any government.

The leadership is thus faced with multiple sources of political pressure. How it, itself, reacts will shape the future course of political events. Among the options available is a departure from the open polity on the assumption

that it can contain opposition more readily in a less participatory system. To the extent that such an option is adopted, the gains in political support and public confidence in the government will be lost. Such actions, undertaken for political purposes, will inevitably have economic costs. These costs will be reflected most immediately in the performance of the private sector, in a reduction of emigrant remittances, and in a potential loss of foreign sources of financial support.

The burden of these observations is for an appreciation of the complexity of domestic politics rendered visible initially by more competitive, open politics, and brought into focus more recently by marked departures from the liberalization trend. Egypt's leadership and its political institutions are confronted by a dual challenge: new economic interests generated by economic change and growth; and new political groups that remain largely autonomous from economic interests. A response in terms of political control – even repression – is not likely to be effective in a context where political liberties have been granted. The costs of imposing new political control may be greater than the regime is willing to bear. The years of a more open polity have created political expectations of participation in the country's political process whose effects may be difficult to circumvent.

9. THE SIGNIFICANCE OF ECONOMIC AND POLITICAL CHANGE

There are many old problems to be overcome in the course of further political and economic modernization of Egypt. The conventional view emphasizes these problems and, in doing so, fails to appreciate both the strong trends which exist and the new problems which are emerging.

The Egyptian economy gives many signs of a system under pressure, struggling with old bureaucratic rigidities and inadequate methods of policy formation, and in some ways trying to do too much too quickly. The result is disappointed expectations, inefficiencies and 'living beyond its means'.

But consider what is *not* true – though often implied: the system is *not* bogged down by its old rules; liberalization of the economy has *not* failed to generate entrepreneurship; the labour force has *not* failed to respond to economic incentives; public enterprise has *not* been content simply to maintain its output positions and private enterprise has *not* been timid.

Bureaucratic patterns have *not* been unchanged; and parliamentary politics is *not* merely symbolic; the parliament has *not* refrained from debating public policies.

The burden of these observations is that the Egyptian government is now faced with a variety of new issues that have, as yet, not been fully recognized. Not only is the public sector still being protected, with no major pub-

lic sector enterprise turned over to the private management, but there has been a notable expansion in the government's concern for distributional equity and social welfare. The old commitments and the new ones, the economic interests and the political ones, all generate pressures on the country's polity and economy that may be far more comprehensive than is commonly recognized.

NOTES

1. For an earlier characterization of some economic changes in Egypt, see Nazli Choucri and Richard S. Eckaus, 'A new view of the Egyptian economy' (MIT, Technology Adaptation Programme, May 1977).

2. Some elements of this view are found in Robert Mabro, *The Egyptian Economy 1952-1972* (Oxford: The Clarendon Press, 1974). Note the emphasis placed on population and employment problems, prefaced by the statement that: 'Population growth slowly but ineluctably transformed Egypt from a labour-short to a labour-surplus economy' (p. 17); further, 'The [1967] war, of course, was an aggravating factor but not the initial cause of the very poor achievements of the mid-1960s' (p. 163). In conclusion, 'The absence of a coherent strategy and the delayed response to unanticipated problems after they emerge lead to new contradictions and limit further the small range of options available to a poor economy subject to population pressures and external conflicts. In the end, the initial development objective is itself sacrificed' (p. 185). Nadav Safran, *From War to War* (New York: Pegasus Press, 1969) makes a more devastating assessment: 'Economically, the initial impact of the [1967] war on Egypt was nearly catastrophic' (p. 397). Reviewing the economic effects of the war, Safran states '... these circumstances spelled famine and disaster' (p. 397). See Eliyahu Kanovsky, *The Egyptian Economy Since the Mid-1960s: The Micro Sectors* (Tel Aviv University: The Shiloah Center for Middle Eastern Studies, 1978) for assessments of recent developments. Dr. Hamed el Sayeh, Minister of Economy, is quoted in the *New York Times*: 'For ten years, we have had a growth rate of only 3.5 and 4%. We are growing backwards' (26 February 1977, p. 7). See, also, 'The result is an economy - neither wholly socialist nor capitalist - that has been unable to make gains in the face of the pressure of the rising population' (*New York Times*, 24 January 1977, p. 3). More recently, in an article entitled 'Peace alone won't solve Egypt's basic economic ills', the view was expressed that '... the country has also been the casualty of its own bureaucratic inefficiency and indecision . . . Part of the frustration comes from trying to slice through the swollen Egyptian bureaucracy, in which as many as four people hold a single post' (*New York Times*, 28 January 1978, sec. VI, p. 3).

3. A journalistic review is presented in the *Economist*,

'If the poor should do more than grumble' (1 November 1976, pp. 83-85).

4. There was some evidence that, in the early and mid-1970s, the Egyptian banking system was able to moderate the loss in money base through the current account deficit by postponing repayment of foreign loans arranged for the financing of the deficit. However, this factor, acting on the supply side, would not affect the demand for money.

5. The 1975 *Annual Report of the Central Bank of Egypt* suggested that the effects of price inflation were not adequately taken into account in the estimates of nominal GNP (p. 23).

6. The equation $V = \alpha + \beta \log \text{GNP}$ was estimated for the period 1959/60-1971/72 with the results:
 $\log V = 0.422503 + 0.1160 \log \text{GNP}$
 (0.2563) (0.0357553)
 with $R^2 = 0.512$
 $D.W. = 2.5784$.

The values of the variables were in fiscal years. Calendar year values of the money supply in the period 1973-1975 were used to estimate the gross national products in those years. Since the predicted GNP values are stochastic variables, confidence limits for given significance levels can be computed. This was done for the years 1973-1976. Only for 1973 did the estimated value fall within the 95% confidence intervals. It is possible, of course, that this is a mis-specified model and a more sophisticated approach would have yielded more reliable results. However, any more sophisticated approach would have had, in effect, to model some change in the money-holding habits of the Egyptian public and there are few suggestions that this has, in fact, been the case.

7. One GNP deflator which is available from the Ministry of Planning sources indicated only a 15.5% rate of inflation from 1973 to 1974 and a 4.8% rate of inflation from 1974 to 1975. These are so modest, by international standards, that they must engender scepticism. On the other hand, could all the increases in the estimated GNP figures from 1973 to 1974 and from 1974 to 1975 be due to inflation? In this case, the implied inflation rates, while not impossible, would be unlikely. They would place Egypt among the countries of the world with the highest rates of price increase.

8. There are stories that cement, which is sold in Egypt at a subsidized price below the world market price, is, in turn, bought and smuggled out of the country. While there may be some truth to these stories, it is hard to believe that they account for the more than 2 million change in apparent domestic use.

9. This information was provided by Dr. Janet Rossow, who obtained it from the Ministry of Housing in the course of investigations of the availability of construction materials in Egypt as part of the research programme of the Cairo University/MIT Technological Planning Programme.

10. See Bent Hansen, 'Economic development of Egypt', in Charles A. Cooper and Sidney S. Alexander (eds.), *Economic Development and Population Growth in the Middle East* (New York: American Elsevier, 1972), pp. 22-91, for a review of the evidence of labour characteristics in the Egyptian economy, a critique of the labour surplus hypothesis, and the problem of efficiency in governmental and public sector enterprises. For an alternative view of the evidence on the existence of disguised unemployment in Egypt, see Amr Mohie-Eldine, 'Open unemployment in the Egyptian economy' (Cairo: Institute of National Planning, January 1977).

11. Nazli Choucri, Richard S. Eckaus, and Amr Mohie-Eldine, *Migration and Employment in Construction: Critical Factors in Egyptian Development* (MIT, Technology Adaptation Programme, 1978).

12. M.A. El-Badry, 'Trends in the components of population growth in Arab countries in the Middle East: A survey of present information', *Demography*, Vol. 2 (1965), p. 158.

13. For an overall characterization of costs and benefits of Egyptian labour migration, see Nazli Choucri, *The New Migration in the Middle East: A Problem for Whom?* (Cambridge, Mass.: Center for International Studies, 1977).

14. See the publications of the Central Agency for Mobilization and Statistics on the movement of Egyptians, entitled *Population Movement Across Territorial Boundaries of the United Arab Republic* (in Arabic, 1968-1973; 1976 and 1977; title changes in 1976); J.S. Birks and C.A. Sinclair, *International Migration Project. Country Case Study: Arab Republic of Egypt* (Durham: University of Durham, March 1978); and 'Wave of Middle East migration raises questions of policy in many countries', *IMF Survey* (4 September 1978), pp. 260-262.

15. According to the Central Agency for Mobilization and Statistics, *Population Movement Across Territorial Boundaries* series, 1968-1977, less than 0.15% of Egyptian migrants each year were permanent migrants.

16. In Egypt, as in other countries, it does not appear to be possible to make a precise accounting of the contributions of migrant labour to the economy and

such an accounting is not attempted in the national income accounts. However, the principles of proper national income accounting of remittances are clear. The earnings of Egyptian migrants who work abroad temporarily and plan to return are part of the nationally produced income. The consumption abroad of Egyptian nationals should be counted like imports or tourist expenditures abroad: a subtraction from the national product. So the net addition to the national product of Egypt of Egyptian national and permanent residents who are working abroad is the savings of those persons. It should be emphasized that these savings are not necessarily the same as emigrant remittances. Remittances are just those funds, from savings or other sources, which happen to be sent back to Egypt in any year. The remittance can be used for any purpose like any other type of funds, but a considerable part of them are undoubtedly used to finance consumption in Egypt.

17. For a review of that issue in the region as a whole, see 'Wave of Middle East migration', *IMF Survey* (1978).

18. The Durham study states that the Egyptian government estimate of workers overseas is 600,000. That number, however, has not been corroborated in our investigations, nor is the original source locatable.

19. See Choucri, Eckaus, and Mohie-Eldine, *Migration and Employment in Construction* (1978), for detailed analysis of wage differentials in the construction industry.

20. Ministry of Planning.

21. See Choucri, Eckaus, and Mohie-Eldine, *Migration and Employment in Construction* (1978), Part II, for a discussion of economy-wide effects of labour migration.

22. See Mohie-Eldine, 'Open unemployment in the Egyptian economy' (1977).

23. Alternative estimates of wage increases in the construction industry are examined in Choucri, Eckaus, and Mohie-Eldine, *Migration and Employment in Construction* (1978), Part I.

24. See Richard S. Eckaus, F. Desmond McCarthy and Amr Mohie-Eldine, *Report on Improved Methods of Macroeconomic and Sector Planning* (MIT, Technology Adaptation Programme, 1978), for a description of a multisector static general equilibrium model which constituted the basis of experiments to examine the effects of labour migration upon the economy.

25. For example, Amr Mohie-Eldine and Ahmed Omar, 'The emigration of universities' academic staff' (Cairo University/MIT, Technology Planning Programme, July 1978).

26. Lance Taylor, *Macro-Models for Developing Countries* (New York: McGraw-Hill, 1969), Chapters 3 and 4.

27. Ministry of Finance.
28. See Bent Hansen and Karim Nashashibi, *Foreign Trade Regimes and Economic Development* (New York: National Bureau of Economic Research, 1975), for a review of governmental economic policies and administrative approaches.
29. The political context of Egypt under Nasser is examined in R. Hrair Dekmajian, *Egypt Under Nasser: A Study in Political Dynamics* (New York: State University of New York Press, 1971); the concluding chapter stresses the continuity of the Sadat regime.
30. This characterization is, by necessity, sketchy. But it encompasses groups such as the Moslem Brotherhood (that had been banned under the Nasser regime), the Takfir wa Hegra, and El Gihad. In this context, the conventional 'right'/'left' distinction loses its relevance. The only critical criterion may well be that of religious fundamentalism.
31. For a partial review of the evidence for this statement see Wayne A. Cornelius, 'Urbanization and political demand making: Political participation among the migrant poor in Latin American cities', *American Political Science Review*, Vol. 68, No. 3 (September 1974), pp. 1125-1146.
32. See Christina Phelps Harris, *Nationalism and Revolution in Egypt* (Amsterdam: Mouton, 1964), for a review of the growth of the Moslem Brotherhood.
33. Again, generalizations are difficult to make but may well hold for the Wafd (legalized then dissolved after a ban for the past 20 yr), the 'Nasserites' (whose organization and leadership still remain unclear), and the Communists (who have also been banned for a long period, and must not be confused with the Left group in Parliament).
34. Nadav Safran, *Egypt in Search of Political Community* (Cambridge: Harvard University Press, 1961).
35. Nazli Choucri, 'Continuity and change in Egyptian politics' (MIT, Center for International Studies, 1978).
36. Cited in *Le Monde* in the context of the Egyptian conflict with Libya.
37. For a historical review see P.J. Vatikiotis, *The Egyptian Army in Politics: Patterns for New Nations?* (Bloomington: Indiana University Press, 1961). For a more recent analysis of army, bureaucracy, and other institutions in politics see Malcolm H. Kerr, 'The United Arab Republic: The domestic, political and economic background of foreign policy', in Paul Y. Hammond and Sidney S. Alexander (eds.), *Political Dynamics in the Middle East* (New York: American Elsevier, 1972), pp. 31-62.
38. Since the events of January 1977 there have been numerous instances of parliamentary opposition to government policies.

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