The Political Economy of Import Substitution Industrialization in Egypt (1950-1970)

Abstract

This article tries to shed light on Import Substitution Industrialization (ISI) in Egypt. The country had witnessed political instability, social changes, and economic hardships. In this regard, those signs are better understood by having a retrospective view into its economic and political history. Egypt drowned in many wars after it got over being a British Colony. We attempt to analyze political and economic institutions and their role in political economy of the country. Political, international, economic, and institutional context differed with each government and president. This explains the divergence in economic performance. It is argued that some factors such as the institutional framework, political and economic ideology, social coalitions, and international financial institutions affected by the implementation and success of ISI.

Key-words: Political Economy, Import Substitution Industrialization, Less Developed Countries, Egypt, Middle East

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Mısır'da İthal Ikameci Sanayileşmenin Ekonomi Politiği (1950-1970)

Öz

Bu makale Mısır'daki İthal İkameci Sanayileşme (ISI) üzerine bir çalışmadır. Mısır'daki siyasi istikrarsızlık, sosyal değişimlere ve ekonomik krizlere sebep oldu. Bu bağlamda, bu işaretler Mısırın ekonomik ve politik tarihine retrospektif bir bakış açısıyla bakıldığında daha iyi anlaşılmaktadır. Mısır İngiliz Kolonisi olmaktan kurtulduktan sonra bir çok savaşla yoruldu ve bunların etkisi hem siyasi hem de ekonomik performansına yansıdı. Hükumetler değiştikçe ekonomik ve politik sistemleri de değişti. Makalede; Kurumsal çerçeve, siyasi ve ekonomik ideoloji, sosyal koalisyonlar ve uluslararası finans kurumları gibi bazı faktörlerin ISI'ın uygulanmasını ve başarısını nasıl etkilediği tartışılmaktadır.

Anahtar Kelimeler: Politik Ekonomi, İthal ikameci Sanayileşme, Az Gelişmiş Ülkeler, Mısır, Orta Doğu

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الاقتصاد السياسي لتصنيع بدائل الاستيراد في مصر (1950 – 1970)

الخلاصة

هذا المقال يلقي الضوء على الاقتصاد السياسي لتصنيع بدائل الاستيراد في مصر. لقد اضطرت مصر لمواجهة عدم الاستقرار السياسي والتطورات الاجتماعية والصعوبات الاقتصادية. وفي هذا السياق، يتم فهم هذه المؤشرات بشكل أفضل من خلال وجهة نظر بأثر رجعي للتاريخ الاقتصادي والسياسي لمصر. لقد واجهت مصر العديد من الحروب بعد تخلصها من الاستعمار البريطاني. نحاول هنا تحليل المؤسسات السياسية والاقتصادية لهذا البلد والأدوار التي تلعبها هذه المؤسسات في الاقتصاد السياسي للبلد. إن السياق السياسي والدولي والاقتصادي والمؤسسي اختلف مع تغيّر كل حكومة ورئيس جمهورية. وهذا الوضع يفسر الفرق في الأداء الاقتصادي. وفي هذا المقال يتم مناقشة كيف تؤثر بعض العوامل مثل الإطار المؤسسي والأيديولوجية السياسية والاقتصادية والائتلافات الاجتماعية والمؤسسات المالية الدولية على تطبيق تصنيع بدائل الاستيراد ومدى نجاحها.

الكلمات المفتاحية: الاقتصاد السياسي، تصنيع بدائل الاستيراد، الدول النامية، مصر، الشرق الأوسط

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Introduction

Import Substitution Industrialization (ISI) goes back to 19th century when Britain was the world's greatest industrial power. Later, European countries such as Germany followed infant industry protection and closed economy principles. Many Western countries had state intervention, through tariffs and licenses. Governments adopted financial measures such as foreign exchange selective rates, rationing, and credit allocation In 1930s, the deteriorated terms of trade of primary exports re-initiated ISI as a deliberate policy for economic growth.[1] WWII increased global shortage of manufactures, and export markets for primary goods collapsed. In 1950s, ISI was the main growth strategy, aiming to divert resources and investments into import replacing sectors. It was expected that capital, skills, and technology transfer would initiate spillovers in whole economy. Instruments followed were tariffs, overvalued exchange rates, quotas, and controls. Tariffs on final goods were higher than tariffs on intermediate goods, to discourage imports of consumer goods and favor capital imports. ISI was elaborated as an inclusive strategy formulated by Raul Prebisch and Hans Singer, who advised ISI and trade barriers in 1950s. They believed comparative advantage would persist in primary goods if LDCs adopted free market economies.[2] Middle East is an important region and a main party to world events. It includes heterogeneous countries such as, Israel, Turkey, Egypt, Yemen, and Saudi Arabia.[3] Middle East can be narrowed down to three countries: Egypt, Turkey, and Israel because they had a growth path different from countries such as the Gulf region , which depended on oil as the main source of wealth.[4] Egypt lies in North Africa. For 25 centuries, it was ruled by foreigners: starting by Persian conquest in 525 B.C., passing by Byzantines, Fatimid, Mamluks, and Turkish conquest in 1516. In 1882, it fell under colony of Britain.

Between 1920 and 1952, monarchy in Egypt followed free market system. Egypt adopted ISI before 1952 but on limited scale since 1930s. After 1952, military government moved the economy to state-led growth. ISI, particularly in textile sector, was expected to create backward linkages for weaving in-

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1 Werner Baer, "Import Substitution and Industrialization in Latin America: Experiences and Interpretations," Latin American Research Review 7, no. 1 (1972): 97.

2 Waterbury, John. "The Long Gestation and Brief Triumph of Import-Substituting Industrialization." World Development 27, no. 2 (1999): 327. doi:10.1016/s0305-750x (98)00135-1.

3 Kamrava, Mehran. "Structural Impediments to Economic Globalization in the Middle East." Middle East Policy Xi, no. 4 (2012): 96.

4 Owen, Roger, and Şevket Pamuk. *A History of Middle East Economies in the Twentieth Century*. (London: I.B. Tauris, 2015), xvi.

dustries. During the 1970s, the country adopted *Open Doo*r *Policy* and signed agreements with IMF, but it did not achieve impressive success. From the second half of twentieth century until 1990s, Egypt witnessed three paradigm shifts in economic policy. Role of state in economic life and country's position in international market changed. In 1952, the first shift occurred through end of the British colony and revolution. Feudal and semi-feudal relations ruled over rural provinces. Private sector was dominant in commerce and small industries, and government slightly intervened to control foreign currencies and protect national industry.[5] Egyptian industrial structure was monopolistic, protected industries and small number of firms existed, markets were limited, entrepreneurs were small in numbers, and imperfect capital markets.

Literature Review

Origins of ISI can be traced back to the 18th century. The Industrial Revolution distinguished industrialized and non-industrialized countries.[6] Britain was the earliest industrializer thanks to Industrial Revolution, depending on textile exports to accumulate capital.[7] After 1870, sea transport improved, and British manufactures were transformed among national borders.[8] In the late 19th century, Britain started to lose its power due to slower trade and industrial protectionism in Europe. Late industrialized countries in Europe improved agricultural sector to create net transfers of savings towards manufactures. After initial industrialization in Europe, ISI became a part of growth process in 20th century.

Governments implementing ISI focused traditionally on centralization of authority, state building, and empowerment in relation to local and international social groups. ISI initially occurs in initial industries such as consumer goods, building materials using simple technology and capital equipment. Afterwards, the movement to industries requiring larger capital outlay and complex technology, such as complex consumer durables and chemical

[5] Amr Adly, State Reform and Development in The Middle East: Turkey and Egypt in The Post-Liberalization Era (New York: Routledge, 2013), 14-15.
[6] Panza, Laura. "De-industrialization and Re-industrialization in the Middle East: Reflections on the Cotton Industry in Egypt and in the Izmir Region." *The Economic History Review 67*, no. 1 (2013):146. doi:10.1111/1468-0289.12019.
[7] Robert J. Alexander. ''The Import-Substitution Strategy of Economic Development.'' Journal of Economic Issues 1, no. 4 (1967): 298. doi: 10.1080/00213624.1967.11502789
[8] Ahmad, Jaleel, Import Substitution, Trade and Development. (Greenwich, Conn: Jai Press, 1987), 21.

products.[9] Economic growth can occur in early stages of ISI, if imports of nondurable consumer goods were replaced by local production. Consumer goods' production employs unskilled and semiskilled workers; it does not require up-to-date technology or complex capital.[10] The complex stage starts by substitution of intermediate imported goods such as petrochemicals and consumer durables. High protective tariffs of 100-200 percent were present in Brazil and Argentina, which stirred up domestic goods' prices and production inefficiency. Focus was on building new factories and new capital goods, which in turn created idle plant capacity due to shortage of funds needed for importing raw materials. Excessive capital intensity and low labor absorption also existed, as capital-intensive goods did not generate jobs.[11] Unfortunately, later stages of ISI can include current account deficits, inflation, higher wages, and balance of payment difficulties. Some Latin American countries deepened ISI without redistributive reforms to expand mass production of basic and standardized goods.

Import Substitution Industrialization in Modern Egypt

Egypt had an agricultural economy, but it was not endowed by national resources. Egypt's role in world division of labor from 1840 until 1952 was as pure exporter of raw cotton.[12]. In 1882, Egypt was absorbed by Britain, which viewed it as an agricultural colonial unit. It built dams and canals, achieved maximum allocation of land, but closed domestic industries. Britain built institutions based on single-crop economy. It did not encourage industrialization in Egypt that was a market for British manufactures. Despite being a colony, the British colony between 1882-1952 may have had left some positive changes. For example, modernization efforts were fast paced in all life aspects. British skilled administration and civil servants trained Egyptian government to get rid of bureaucracy. There was no more harsh treatment for peasants, public order was maintained, foreign capital inflows increased, the property was specified to upper class and foreigners. The British paved the way for social and economic revolution led by free officers in 1952. Egyptian

[9] Baer, Werner. ''Import Substitution and Industrialization in Latin America: Experiences and Interpretations.'', 98.
[10] Balassa, Bela. "Trade Policies in Developing Countries." *The American Economic Review* 61, no. 2 (1971): 181. http://www.jstor.org/stable/1816990.
[11] Dominick Salvatore. ''International trade policies, industrialization, and economic development.'' *The International Trade Journal* 10, no. 1 (1996), 24, doi: 10.1080/08853909608523846
[12] Waterbury, John. "The Long Gestation and Brief Triumph of Import-Substituting Industrialization'', 325.

economy interacted with West during first half of 20th century. Production structure shifted to cotton production rather than food production. Foreign modern financial institutions undertook commercial transactions.

A State-Led Economy (1952-1971)

The revolution in 1952 was voice of people. A mixture of agrarian capitalism and feudalism initiated the anti-feudal coup. The Egyptian economy was capitalist since last quarter of the 19th century, as cotton exports increased, and wage-earning labor was used. Monarchy was abolished and Republic of Egypt was declared on June 18, 1953. The Revolutionary Command Council consisted of men from low and low-middle class. The parliamentary rule was ended, because it was corrupt and incompetent. Political parties were dissolved; liberation front was established in 1953 to signal a single party reign. Gamal Abdel Nasser used the state to build a political base due to absent political organization. The regime increased distributive rewards to create a political constituency and gain support of opposing groups.[13] Three stages occurred in Egypt, a semi-independent state, in which agrarian bourgeoisie cooperated with foreign capital to rule the society.

The First Stage (1952-1956): The Beginning of Land Reform

Development strategy by revolutionary leaders was based on some keys. Capital was to be diverted away from agriculture by voluntary or forced methods. Modernization of agriculture was to increase productivity and strengthen its role in national development. Moreover, containment of any opposition forces such as powerful landowners. Finally, small cultivators would be supported to realize social justice and political wisdom.[14] Nasser used three measures to shape agriculture: land reform, investment decisions, and price policies. Public sector had to grab economy's resources and direct them into SEEs. Goods were produced at affordable prices and controlled by the state. Although they had low quality, life quality generally improved. Employment for thousands was guaranteed, so political and social stability were maintained.[15] By 1952, Egypt had no hereditary landed aristocracy. The

[13] Mark Cooper, "Egyptian State Capitalism in Crisis: Economic Policies and Political Interests," The Middle East, 1983, 483, doi:10.1007/978-1-349-17282-5_11.
[14] Iliya Harik, "Continuity and Change in Local Development Policies in Egypt: From Nasser to Sadat," International Journal of Middle East Studies 16, no. 1 (1984): 43-44, doi:10.1017/s0020743800027604
[15] Bruce K. Rutherford, Egypt after Mubarak: Liberalism, Islam, and Democracy in the Arab World (Princeton, NJ: Princeton University Press, 2014), 133.

Law of September 1952 was the basis for wealth redistribution. Before the reform, 2000 owners out of 2.8 million owned 20 percent of total land, while 2.6 million owned 36 percent of land. The land reform destroyed power of large landowners through redistributing land to farmers.

The 178,000 feddans of royal family were expropriated without compensating, so the state made high profits. In 1952 Law, Article 3, there was compulsory reduction in agricultural rents, which benefited around four million peasants, whose income increased by 50 percent. Under parliamentary regime, landowners were politically powerful and resentful to any reform. Land reform established a cooperative system for beneficiaries and regulated relations between landowners and peasants. Owners of excess land could sell it at price fixed at seventy times the land tax, through a limited time of month and a half, which starts after law's promulgation. Land unsold was requisitioned by state in return for indemnities fixed at ten times its rent value; including value of machinery even trees.[16] Nasser faced chaos in cotton, budget, and balance of payments. The cotton exchange was closed in 1952 and reopened in 1955.

Incentives were used to encourage private investments. However, capital was rather directed to construction activities. Agricultural cooperatives were introduced, and farmers were obliged to membership, abiding by rules concerning prices, marketing, and crop rotation. The government gradually increased its involvement in economic sphere. In 1953, the Permanent Council for the Development of National Production was created to compromise representatives of both sectors, coordinate projects, and divert local capital towards industry. Production cooperatives were obligatory for private agriculture holdings. Prices of sold lands were financially favorable compared to nominal compensation for old owners. Cooperatives were supposed to enforce rationality in crop rotation, provide seeds and fertilizers, and market agricultural products. Lands that exceeded fixed ceiling were distributed among landless cultivators. The system was compulsory for all villages and export crops in 1960s, with a cultivator bearing whole responsibility and government helping through cooperative services.

[16] Peter Mansfield, "Nasser and Nasserism," International Journal 28, no. 4 (1973): 672, doi:10.2307/40201172.

Table 1 Changes in holdings of small landowners (five feddans or less)

Year	Number of Owners	Total area held (feddans)	Average holding per owner (feddans)
1961	2,919,000	3,172,000	1.08
1965	3,033,000	3,693,000	1.20
1975	2,693,264	3,948,165	1.50

Table 1 shows average holding for small peasants, with five feddans or less, which increased from 1.08 feddans in 1961 to 1.20 in 1965, and 1.50 in 1974. Small peasants increased after reform in 1952 but declined by 1974.[17] Landless labor (non-tenants) was worse. Reforms decreased their employment; these tenants receiving small plots depended on family members and constituted large proportion of rural population. Small peasants owning less than five feddans rose from 35.4 percent in 1952 to 54.8 percent in 1964.[18] Tenants with five work animals participated in government and animal insurance. Tenants with more than fifteen feddans obtained seeds. Farmers with less than five feddans were not allowed to plan profitable crops. Government bought crops at prices that are 20/25 percent of international price. There was no mobilization or competent cadres, so gap was larger between poor and rich peasants, directly profits increased by rich ones, while indirectly crops were consumed by tourists or middle-urban class, cotton was reduced, foreign exchange was in shortage, and wheat imports increased.[19]

Farmers received low prices, because of cooperative marketing. High taxes were an implicit burden on farmer. Small farmers produced crops such as wheat and cotton. Large farmers grew crops uncovered by price controls. Output of fruits or vegetables was not subject to cooperatives regulations, which in turn increased their profits.[20] Crop consolidation required small peasants to plant cotton all in one year, and wheat in one year. Peasants were in need of cash or credit, supplied by rich peasants. In 1961, about 10 percent of land cultivated was redistributed, and less than 250,000 families benefited. Large landowners did not sell extra land to peasants. The number of proprietors with less than five feddans could have risen from 35 to 49 percent of landholdings at end of 1950s. Links of intermediate proprietorship were

[17] Iliya Harik, ''Continuity and Change in Local Development Policies in Egypt: From Nasser to Sadat'', 47.
[18] Elie Podeh and Onn Winckler, Rethinking Nasserism: Revolution and Historical Memory in Modern Egypt (Tallahassee, FL: Orange Grove Texts Plus, 2009), 21-22.
[19] Richards Alan, "The Agricultural Crisis in Egypt," The Journal of Development Studies 16, no. 3 (2007): 304-307, doi:10.1080/00220388008421760.
[20] Victor Levy, "The Distributional Impact of Economic Growth and Decline in Egypt," Middle Eastern Studies 22, no. 1 (1986): 100-101, doi:10.1080/00263208608700652.

created between micro holders and large holders. In 1961, limits were 100 feddans per proprietor, after it was 200/300 per family. Renting feddans was prohibited, and 2.50,000 feddans were redistributed, 45,000 feddans were added from sequestrated individuals.[21]

There was strict control over crops of cotton and rice, purchase of portions of output, and control over purchases of seeds and pesticides. Land reclamation increased the cultivated area by less than 15 percent, and it was of less productivity. Political mobilization of peasants was done through political participation and peasants becoming leaders. Finally, rural community received services, development facilities, schools, and supply of technical and medical staff in rural areas and minimum wages laws. The reform was only profitable to those who already had stake, the upper segment of low-income group due to restrictions on better forms of wealth distribution. Land reform involved 16 percent of cultivated land and redistributed 13 percent to around 10 percent of total rural families. If equal shares were received by each rural family, plot would have equaled 1.8 feddans, which could do better in terms of subsistence.[22]

Cooperatives were somehow successful because managerial functions of landowners were now done by state agencies. The pesticides, inputs, and tractor services were provided at subsidized prices. However, it generally failed due to incompetent bureaucrats and overstaffing. It provided poor-quality services and inputs; it was biased towards better-off farmers. Performance of cooperatives could be acceptable, if institutions performed part of the business. There was overload on cooperatives; it was responsible for designing agricultural mechanization capacity, marketing of products, and determining cultivation services.

Mechanization process improved regular operations and timeliness. Animal power was replaced by machines. However, productivity of labor in agriculture declined. Agriculture had negative conditions such as bad climate, lack of cooperation between farmers and authorities along with lack of enough pesticides[23]. Medium-size landowners did not witness changes in

[21] Alain Roussilion, "Republican Egypt Interpreted: Revolution and Beyond," in The Cambridge History of Egypt Modern Egypt, from 1517 to the End of the Twentieth Century., vol. 2 (Cambridge: Cambridge University Press, 1998), 344-345.
[22] Khalid Ikram, The Egyptian Economy, 1952-2000: Performance, Policies, and Issues (Routledge Studies in Middle Eastern Economics, 2006), 8-9.
[23] Charles P. Issawi, Egypt in Revolution: An Economic Analysis (Westport, CT: Greenwood Press, 1986), 60-61.

their shares of cultivated area. However, the reform never aimed at elimination of landlessness problem, due to land scarcity and limited amounts of redistributed areas. In 1969, the final ceiling of 50 feddans meant high income and landless people still exist, absence of follow up information about distributed areas or number of misappropriated persons, if ceilings were lower by ten feddans, landless problem would have been solved. Expectations set were not so realistic, and impressions were basic for judging.

There was no urban class support for the regime, and bureaucracy was adopted by engineers and decision makers. Moreover, peasantry had no chance for mobilization campaigns of large-scale masses. Land ownership differed from farms as distributive units. Rich peasants did not get land directly; it was distress sales made by larger landowners. Government was not effective in restricting their power, tenancy laws were enacted, and leases were in written form and minimum of three years, while rents were not to reach more than seven times the land tax of 1949. These landowners used wage-labor to direct exploitation of their lands and were in most cases evading laws and wage relations. There was an alliance between officers and small landowners emerging after agrarian reform. They formed an intermediary between regime and villagers.

The state was responsible for investments in infrastructure and social services. During first four years, the emphasis was on private sector. The Federation of Egyptian Industries demanded low taxes and custom duties on raw materials and high protection through higher tariffs on domestically produced goods. There was tendency for partnership between government and private sector. Productivity was to be increased through credit, fertilizers, and less interest at harvest. All were support shapes for land consolidation, private entrepreneurs, and cooperatives to provide mechanization and finally flood control. A small industrial sector operated in manufacturing textiles, processed food, and small appliances. About 60 percent of investments were by foreigners. In 1955, iron and steel complex were set in Helwan, and then a cracking blast led to loss of time and money. The location was remote from iron sources; it was based on political considerations. Gradually, some jobs were provided, and imports declined. Economic goals were unrealistic, one reclamation project was to be between Cairo and Alexandria, and loans were negotiated due to shortage of funds bureaucrats[24].

[24] Afaf Lutfi. Sayyid-Marsot, A History of Egypt: From the Arab Conquest to the Present (Cambridge: Cambridge Univ. Press, 2010), 142.

In 1952, ownership of economic sectors was transformed to hands of the government; direct taxes increased, and high revenues of SEEs, social services extension, less income inequality, fixed salaries in government. The share of industry in GDP was 20 percent, the army controlled economic and political aspects of life. GDP was estimated to grow at 3.5 percent annually during 1952-1974, and per capita income to rise by 1 percent annually. The government became an equity owner in new industrial firms.[25] In 1954, Production Council was established to evaluate large-scale and capital-intensive industries to which joint private-government ventures were suggested. Sequestrated foreign enterprises were banks or businesses in insurance. They were organized under the Economic Organization, a semipublic company, which supervised first industrial five-year plan in 1957. It was believed that industrialization would solve employment problem.[26]

In 1953, Law No. 430 provided seven years exemption of profits' taxes, if the firm helped economic development, and five years if the company already existed but increased capital. A fund was established to market cotton in and outside. It was compulsory for companies with capital higher than 10,000 EGP to be a member in industrial chambers. The government appointed not less than two directors. The government established permanent council for production to propose and evaluate new projects. Raw materials were scarce and expensive; lack of adequate transportation, water, poor equipment for mining. Agricultural raw materials were in deficit, and basic ones were not available or of inferior quality. The government adopted welfare policies to realize egalitarianism.[27] The parliament was dominated by landowners that controlled peasants. An illiterate rural society was not ready for democracy. The government undertook reforms in education, health, employment, and labor legislation. Daily minimum wage increased from EGP 0.125 to EGP 0.250 in 1953 but came into action in 1960 due to system of fringe benefits. Insurance system financed by employer for industrial workers was introduced to improve their conditions. Moreover, profit sharing was also introduced; 25 percent of net profits were to be shared among employees.[28]

[25] Khalid Ikram, The Egyptian Economy, 1952-2000: Performance, Policies, and Issues (2006), 7

[26] Bent Hansen, The Political Economy of Poverty, Equity, and Growth: Egypt and Turkey (Oxford: Oxford University Press, 1992), 122-129, *http://documents.worldbank.org/curated/en/1991/12/440580/political-economy-poverty-equity-growth-Egypt-turkey*.

[27] Nazih N. Ayubi, "Withered Socialism or Whether Socialism? The Radical Arab States as Populist-corporatist Regimes," Third World Quarterly 13, no. 1 (1992): 92-94, doi:10.1080/01436599208420264.

[28] Roger Owen, State, Power and Politics in the Making of the Modern Middle East (London: Routledge, 1994), 28-30.

The Second Stage (1956-1961)

The High Dam project was one of agricultural investment policies, emphasizing land reclamation and drainage. It was expected to increase cultivated area from 20 to 25 percent and provide cheap hydroelectric power to industrialize. The UK and USA promised to provide 70 million USD supporting the first phase, with later aid coming from the World Bank. Many conditions were tied to this offer. One- third of government revenue was to be allocated to the project. The government could not obtain foreign debt without the World Bank approving. However, disbursements were divided into separate phases, and there was Western pressure related to Arab-Israeli dispute. In July 1956, the offer was cancelled. Until 1956, the Suez Canal never affected the economy because of shares owned by France and Britain. The Canal was nationalized in July 26, 1956. Britain blocked Sterling assets. The USA blocked dollar assets, while trade was blocked. The Canal started receiving revenue in 1960. Egypt received trade and aid from East. The country fell into foreign exchange shortage. However, competitiveness of manufactures increased between 1945 and 1952, as indicated by IMF.

ISI led to realization of High Dam, building of steel and iron complex at Helwan, adoption of welfare-state policies through expanding civil service and public sector, providing employment to graduates in public sector. There must have been mobilization and incentive systems for landless peasants, to control corruption and ensure adequate performance. However, solutions were limited to social and ideological boundaries, not more. Heavy industry received high priority. The state was not ready to give up social base's standard of living improvements for funding industrialization. The funding was for outsized industries, and primary agricultural products were only imported by socialist bloc.[29]

A new Constitution in 1956 defined the framework for private sector's operational scope. British and French assets were sequestrated and managed by the State Economic Organization set in 1957. It had full control over foreign banks, commercial agencies, and insurance companies. Half of commercial bank loans were concentrated in seven commercial banks, and 68 percent of insurance business transactions were concentrated in five insurance companies. About 20 percent of labor force was employed, and third of aggregate

[29] Relli Shechter, "The Cultural Economy of Development in Egypt: Economic Nationalism, Hidden Economy and the Emergence of Mass Consumer Society during Sadats' Infitah," Middle Eastern Studies 44, no. 4 (2008): 574, doi:10.1080/00263200802120632.

output was solely by industrial sector. The organization turned them into domestically owned joint stock companies within five years. National Planning Committee was established to plan for long-term social and economic development. Nationalization process allowed public ownership for industrial sector, which means employment, wage, projects, and techniques were all based on planning. Employment increased because of less working hours, higher wages, profit sharing, and fringe benefits.[30] The government increased its share in national income. It was 35 percent in 1959 and 60 percent in 1962. Capital distribution was more unequal than income. The state was a senior partner with important bourgeoisie groups.

The Ministry of Industry was established in 1956 and allowed an economic development organ to manage nationalized economic and commercial establishments and infrastructural projects. In 1957, half of manufacturing output was produced by capital-intensive sectors. Investments were in industries with limited labor substitution for capital. Industrial structure changed between 1952 and 1960; production in paper increased by 145 percent, 100 percent in cement, and 66 percent in oil refining, total output increased by 60 percent. In the 1950s, tariffs increased because of protectionism and revenues considerations. Effective protection rates were 100 for tobacco, textiles, and leather products, 20 percent for food and furniture, and negative rates for beverages. There were other measures such as licensing, price controls in order to constraint imports[31]. In 1957, Law No. 153 prevented any insurance firm to be established without state permission[32].

The state financed heavy industry, and private sector was to finance light industries. However, no up-to-expectation investments were made by private sector. That is why the 1959 laws made it compulsory for firms to invest 5 percent of profits in state bonds with ceiling of 10 percent dividend to shareholder, of nominal value of share. Bank Misr and National Bank were nationalized in 1960, and they became socialist institutions working on development plans[33]. Until 1961, private properties of foreigners were nationalized. National Bank of Egypt (NBE) was nationalized and was followed by banks and insurance companies. National Bank was monopolist of note

[30] Robert Mabro, "Industrial Growth, Agricultural Under-Employment, and the Lewis Model. The Egyptian Case, 1937–1965," Journal of Development Studies 3, no. 4 (1967): 331.
[31] Bent Hansen, ''The Political Economy of Poverty, Equity, and Growth in Egypt and Turkey'', 99.
[32] Charles P. Issawi, '' Egypt in Revolution. An Economic Analysis'', 57.
[33] Ezzat M. Kenawy, "The Economic Development in Egypt during the 1952-2007 Period'," Australian Journal of Basic and Applied Sciences 3, no. 2 (2009): 589.

issuing, lender of last resort and control authority over bank rates; it was rather a Central Bank[34], and as custodian of government's fund. Bank Misr was the first Egyptian company to be nationalized. In 1961, the government took over import and export trade. Progressive tax system was introduced, and individual shareholdings were limited to 10.000 EGP[35]. In 1961, Law 117, 118 and 119 allowed state's direct control over financial apparatus and non-agricultural production means[36].

Between 1952 and 1973, public infrastructure and social services were areas of focus, while private sector was restricted to agriculture, real estate, and informal economy. SEEs had monopoly over banking, manufacturing, foreign trade, and transportation. This intervention was institutionalized in National Charter of 1962, subsidies were provided for many goods, and employment was guaranteed for those with secondary school diploma. Subsidies in Egypt influenced all citizens. They were like wages, which varied to skills and rank. Higher income meant higher subsidy, so those who were better off benefited more. Food subsidies constituted small part and were equally distributed, so major part was to non-food items. Benefits targeted middle- and high-income groups; the reform should not only focus on reducing subsidies, solving price/wage distortions, as it will face opposition from state and bureaucrats. The welfare state was a means through which the state-maintained stability. Capital needed for investment was diverted, to meet increased population, increasing at 2.8 percent annually[37].

First Five-Year Industrial Plan (1958)

The 1956 Constitution stated that development must be planned. In 1958, a Five-Year Plan was made, and the state provided 60/61 percent of funds in heavy industries. The main condition was to increase net investment from EGP 34 million to EGP 45 million annual averages between 1957 and 1961. Debate revolved around role of foreign investment. Foreign shareholders were granted a majority control in domestic firms. The plan focused on four goals: establish basic industry, meet main industrial goods' demand, promote exports, and build regional balance in industry distribution. The plan was initially ten-year plan, but only first plan was applied. Growth was 8.9

[34] Khaled Ikram, ''Economic Development and Policymaking, 1952–73'', 6.
[35] Peter Mansfield, ''Nasser and Nasserism'', 681.
[36] Alain Roussilion, ''Republican Egypt Interpreted: Revolution and Beyond'', 345.
[37] Bruce. K. Rutherford, ''The Decline of Statism and the Convergence of Political Alternatives'', 135.

percent and 3.5 percent in 1961/1962, because of weather and loss of cotton camp. About 34 percent of investment was directed to industry. However, there was a wide lack of information to indicate degree of competitiveness of Egyptian industry. The plan aimed to double GDP to reach 40 percent by 1965 and national income by 1970[38].

The plan addressed all sectors: investment, exports, imports, consumption, and employment. The state set goals, techniques, and growth rates. About 90 percent of capital formation was provided by state, imposing its priorities on development agenda. Economic planning was on firm basis, which is regulated by the market. There was focus on heavy and strategic industries, but also on consumption patterns, encouraged by the welfare state. In 1951, numbers employed in public enterprises were 350,000, and in 1965, it reached 1000,000. Governmental ministries rose from 15 to 29. Third of non-agricultural labor force was employed in government. Total number of military members in 1955 was 80,000 and rose to 180,000 in 1966 with 90,000 paramilitary police. The government exports as a share in GDP rose from 18.3% in 1954 to 55.7% in 1970[39]. In 1961, the productive apparatus of public enterprises was completely defined. Companies with 50 percent shared by the state were divided among 39 sectorial-based ''general organizations'', directly supervised by relevant ministries coordinating their activities through a plan. Specialized sectors were responsible for nationalized banks, and external trade was under state control[40].

Private sector was supposed to provide 55 percent of locally funded investment. However, expectations were unrealistic, private sector could not increase savings from EGP 87 million in 1959/60 to EGP 157 million in 1960/61[41]. ISI was fully defined. There were close ties between large monopolists, and the government, providing concessions, tariff barriers, and subsidies. A sustained growth was expected in Egypt in the early 1960s[42]. In 1960, 77 percent of population was potential work force, but only 32.6 percent was actual labor force, concentrated in tertiary sector. There was 21.7 percent in infrastructure, 10.6 percent in commerce, 54.3 percent in agriculture, 10.6 percent in manufacturing. This reflected the limited nature of manufacturing

[38] Ezzat M. Kenawy, ''The Economic Development in Egypt during the 1952-2007 Period'', 589-590.
[39] Roger Owen, ''State, Power and Politics in the Making of the Modern Middle East'', 24-25.
[40] Alain Roussilion, ''Republican Egypt Interpreted: Revolution and Beyond'', 345-346.
[41] Paul Rivlin, "Nasser's Egypt and Park's Korea. A Comparison of Their Economic Achievements," in Rethinking Nasserism. Revolution and Historical Memory in Modern Egypt (2004), 274.
[42] Victor Levy, ''The Distributional Impact of Economic Growth and Decline in Egypt'', 98.

sector because of concentrated ideological, economic, and political power in hands of technocratic bureaucrats[43].

In terms of internal consistency, there was exaggeration in targets of growth from 4.5 to 7.2 percent in a country with similar conditions. There was underestimation of population growth, means exaggerated national income. Nationalization process led to less efficiency, so capital-output ratio decreased, and capital depreciation was high. The tendency was to make new capital investments rather than efficiently using available capital. The relation between resources and demand was not based on accurate figures. The government attempted to raise savings and achieve social equality through controlling business class and decreasing surplus, but increased mass consumption. Higher expenditures by government acted in the opposite side. The plan ignored indirect requirements of foreign exchange, caused by increased imports in some sectors. New industries lacked scales of economies, and they produced only for domestic market. There was gap between planning and policymaking. Guaranteed employment led to over-staffed public enterprises and absent efficiency. The plans made were too vague to include such targets without considering actual resources availability. They did not involve deliberate export promotion; domestic demand was only investment criterion in industry. There was ignorance for social profitability. Lack of up-to-date information on parameters or input-output ratios led to estimates based on guesswork. Agricultural sector's income through exports was transferred to industrial sector. It was also used for processing industry needs for food industry; through small quantities and low prices, control was over whole consumption of GNI.

The land reform aimed to divert investments towards industry. However, no redistribution occurred. There was a decline of 25 percent in industrial investment declined by 25 percent, from LE 28 million in 1952/53 to LE 23 million in 1953/54[44]. Funds after 1967 were scarce and capital constraint existed. The military bureaucratic mentality was reason for failure; problems of old lands were intractable. Agricultural trade deficit had some elements: domestic demand for rice and wheat increased due to higher percentage of population in cities[45].

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43 Anouar Abdel-Malek, "Nasserism and Socialism," The Socialist Register 3 (1964): 45, https://socialistregister.com/index.php/srv/article/view/5927/2823.

44 Paul Rivlin, ''Nasser's Egypt and Park's Korea. A Comparison of Their Economic Achievements'', 274.

45 Alan Richards, ''The Agricultural Crisis in Egypt'', 304-309.

The High Dam was built along with construction projects, but construction rather than manufactures could have solved employment problem. Unskilled labor was transferred from rural to urban areas, where 73 percent of industries existed in 1960. It was expected by Lewis that size of agricultural sector would not change, and that more labor could freely shift to industry. The Dam was only significant in electricity and public utilities between 1965 and 1974. Lands were converted to perennial irrigation rather than basin. In 1970/1971, when investments took place in public drains and pumping station, it was inadequate as water supply increased. The Dam was expected to increase perennial irrigation and cropping in Upper Egypt that followed basin irrigation, increase rice cultivation, shift maize cultivation from months of June-September, and increase water supply for Western Desert reclamation. However, results were disappointing, due to water logging and overwatering. Although further investments were nominated by Soviet engineers to avoid water rise, they were delayed because of war and foreign exchange shortages.

Third Stage (1962-1970): The Era of Socialism

It was not until 1960, when the five-year plan unleashed the nature of expected economic system, and socialist transformation. However, it was a policy of trials and errors rather than a defined ideology. In 1961 and 1963, the property of wealthy families sequestrated, and the entrepreneurial class was destroyed. All nationalized enterprises were consolidated into one hundred and sixty joint stock companies under control of eleven general organizations. Price controls converted these firms into loss making, instead of profit-loss concept. There were output and productivity targets set for enterprises in parallel, and as metric for efficiency. Tariff system in 1962 imposed a protectionist quota for firms ensuring ISI: 22 percent on food, 599 percent on steel, and 990 percent on leather. Socialist laws on regulating labor utilization, wages and prices increased unemployment and lowered productivity[46]. In the 1960s, ISI was in meat and cereals; export promotion in rice and cotton, non-tradable goods were produced. After 1973, domestic demand increased, cotton cultivated areas declined, animal feed, and cereals increased. ISI in agriculture was a production policy rather than an investment. In August 1963, 228 enterprise was nationalized in industry, transport and

[46] Ezzat M. Kenawy, ''The Economic Development in Egypt during the 1952-2007 Period'', 591.

mining. There was compensation for shareholders in shape of state bonds with 4 percent interest, and payment in 15 years. In November 1963, 177 companies in internal transport and arms factories, and 6 land companies were nationalized[47].

The role of private sector became minor in terms of investments, production, and decision-making. It was argued that "Arab Socialism" was factor behind takeovers. In May 1962, Nasser presented the *National Charter (Al-Mithaq Al-Watany)*. He stated that economic development must not rely on individual efforts, but rather on socialism. The Charter set an outline for economic activity's provisions. There would be public ownership of economic infrastructure, and majority of heavy and medium industries. Banks and insurance companies are only confined to public sector. Private ownership sphere was constrained to land, construction, and light industry. In 1962, 1/6 of privately-owned land was controlled by ministry of agrarian reform.

Until 1963, in building and landowning sectors, private enterprise was dominant; its share to national income in 1962-1963 budgets was 65.8 percent, with only 34.2 percent done by public sector. In agriculture, private sector's share was 93.8 percent, 87.5 percent in building, 79.1 percent in commerce, and 56.4 percent in industry. The state imposed its participation by 51 percent in middle-scale economic units' capital ownership and administration. The state controlled all aspects in the economy except for agriculture and retail trade. After 1967, Nasser shifted the economic policy away from socialism. The policy promised expansion of private sector due to lack of finance, so many joint companies were established, and the state's share was 25 percent of total capital. Foreign debt increased, and about 80 percent of military stock was lost. Private sector was somehow supported to perform some projects. That is why it is argued that open door policy was rooted in Nasser's time and not purely invented by Sadat. In 1969, individual ownership of land declined from 200 to 50 feddans.

Unions and associations had two choices: either to be disbanded or re-shaped according to new regulations and system requirements. These actions created monopolized political sphere in favor of preferred party. The Confederation of Egyptian workers was established along with other groups with compulsory membership. There was control over trade unions and their demands, which could not be demanded by strikes. The social division

[47] Anouar, Abdel-Malek, ''Nasserism and Socialism'', 42-43.

of citizens into groups and associations aimed at determining which roles were expected from each member through modernization process. Socialist Revolution as a term appeared in 1961, because of nationalization waves. It started by nationalizing firms engaged in foreign trade, closing Alexandria cotton futures market, and exclusive right granted to State Cotton Authority to buy cotton. Moreover, takeover of 44 firms in basic industries, banks and insurance companies, expropriation of half of 86 firms' capital, the passage of shareholders' assets in excess of LE 10,000 to public sector. Property of 167 then 500 wealthy Egyptians was sequestrated[48]. It was a version of socialism, based on secularism, and classless corporate society.

Economic aspects of socialism were as follows. First, economic infrastructure should be owned by the state. Second, insurance companies and banks, and industries, small, medium, or heavy should be publicly owned. If private sector existed, it should be supervised by the government. Third, imports and three quarters of exports trade should be publicly owned. Fourth, ownership of land should distinguish between exploiting and non-exploiting ownership. Socialism was not a question of free choice, but rather due to aspirations of masses and world changes. Socialism was ideal due to political crisis and social discontent. Laws had social character: employment allowance, wages, reforms, intervention in setting prices. Public sector developed while private sector was neglected, subordination of agricultural sector, old equipment and inflationist policies, external loans, wrong foreign policy caused failure of Nasser. Socialist components were gradually implemented due to political challenges whether internal or external. There was imitation for Soviet style in building single military revolutionary command, which then formed a Liberation Rally, followed by a National Union. Political control and higher growth were achieved by technical devices.

Egypt was one of radical cases of socialism, public ownership, wealth redistribution, and ISI. The Soviets promoted industrialization in Egypt as it looked forward to reorienting trade away from West[49]. There was paradox in economic ideology; capitalism and private sector existed aside by socialism and state-led economy. Participation was mainly by small group of bureaucrats rather than masses of people. Regardless of all mistakes surrounding Nasser's regime, he established welfare state in Egypt and attempted to sup-

[48] Khaled Ikram, ''Economic Development and Policymaking, 1952–73'', 6-7.
[49] John Waterbury, "The Long Gestation and Brief Triumph of Import-Substituting Industrialization,", 333.

port peasants and workers. Nasser erected a soft state, in which economic issues did not receive enough priority. He maintained basic consumption levels to avoid imposing burdens on citizens. It was believed that capitalism would only strengthen political power of class that owned resources. However, if it was the case, it meant capitalism existed rather than socialism, in terms of society dominated by certain class, or negation of class struggle. Socialism rejected exploitation; it aimed to create economic equilibrium among citizens to have justice and equality in opportunities for preserving national unity. For a country to take-off into sustained growth and control any internal conflicts, masses should be politically mobilized. The state attempted to serve and satisfy influential groups differently.

Since 1952, individual value norm and liberal social order diminished. Politics was no more voluntary exchange: political parties were banned, organized interest groups and professional syndicates were destroyed, and patron-client system was established. Nationalization, sequestration, and land reform destroyed any possible opponents. Nationalization destroyed entrepreneurial class and powerful families. Subsidies were a way of supporting consumers through price controls. Welfare-oriented policies aimed at equity in income and wealth. The state provided means to mobilize masses through income distribution and supporting economically dependent citizens. Subsidies were monetary policy to adjust price and wage levels, and were an administrative means used by policy makers in solving economic problem. Nasser followed socialism with efforts towards solidarity. Nasser believed he could imitate Atatürk's efforts in building a harmonized society. Socialism was embodied in the community to remove class conflicts caused by class inequalities.

Table 2 shows total savings that increased from 8 percent to 12 percent, from 1950 to 1970; total consumption declined from 8 percent to 76 percent, and total investments increased from 13 percent to 18 percent. During 1950s, nationalization provided employment opportunities and accumulated profits for investments, in projects.

Table 2 Shares of Consumption, Savings, and Investment in GDP, 1950, and 1970

Structure of GDP (%)	1950	1970
Share of total consumption	88	76
Share of total savings	8	12
Share of total investment	13	18

Social and economic policy measures were suspended, production, quantity, and quality of services declined. Nasser sacrificed growth for military. Private consumption did not decline, but investment was sacrificed. The Revolutionary Command Council had no ideology, philosophy, or political program. Egypt witnessed many economic systems, which were never based on clear philosophy. During Nasser's time, policy measures were only a reorganization of interests led by political motives. To create a modern state, economic and scientific management were necessary means, along with valuing work and human capital, distribution of individual incentives. There was accumulation of unfinished projects, little consideration for economic profitability, ignorance of project evaluation and economies of scale and exporting sector, focus on consumer goods, planning was handed over to foreigners, unrealistic prices, and cost estimates were set. Egypt had one untapped resource, which was the desert. It shaped 95 percent of the country. Cheap electricity from Qattra Depression could have been used to lift water. Methods of distil sea water by harnessing solar energy was successful in many countries; it was experienced in Egypt in 1962.

Egypt has a unique position when it comes to agriculture. Within a century, Egypt witnessed four stages: introduction of cotton and irrigation by canals, expansion of cotton cultivation during American Civil War, and British undertaking irrigation works. Although Egypt had a sophisticated system of irrigation and labor-intensive production, it had cotton dependency, unequal property distribution, small-scale farming, and large number of intermediaries. Drains were present but needed deepening and pumps. When schemes for agriculture and flood control were applied, they were designed outside Egypt. Therefore, the country faced high outlay of foreign exchange and could not generate hydroelectricity. The country kept letting floodwater into the sea, so it lost 30 million of river 80 million cubic meters.

The contribution of one sector to GDP growth depends on its relative size and growth rate. Agriculture had contributed insignificantly to total growth after WWII. It grew at 22 percent between 1952/1953 and 1959/1960, and then it declined to 8 percent between 1974 and 1981/1982. During 1960s, three-quarters of agricultural investments were to reclaim Western Desert. Unfortunately, less than two-thirds of this land was cultivated, with marginal returns. The lack of adequate land settlement policies led to unexpected results. The mechanical approach and lack of knowledge led to failure[50]. Agriculture deteriorated, because of rising subsoil water caused by High Dam, which did not allow for replacement of silt. Expensive fertilizers were not afforded by farmers. The abolishment of silt harmed fishing industry in delta. On the other side, fishing industry in High Dam and Lake Nasser satisfied domestic needs and was expected to set up canning and fishing factories. Another opportunity was a system of agriculture around Lake Nasser due to subtropical climate resulting from evaporation. However, due to lack of funds, it was not done. Increased moisture harmed archeological sites due to destroyed stones. The cultivation in Nile River was always limited due to topography and available water; even after High Dam was built, no much variation in cultivated area existed.

Poor groups did not benefit from nationalization. Landless and poor people did not benefit directly, but they had improved standards of living. State-led growth and planning lasted for nearly ten years; the planning concept was a tool of scientific management practices, production for local market was to increase, high protection and prompted certain industries by the state, planning had no consideration for cost and price, or to which criteria did the state decide industries to promote. Although Egypt had industries with natural advantages such as domestic supply of raw materials, these industries had low domestic cost and were competitive until nationalization started. However, textiles were not competitive, because high quality cotton textiles were not suitable for domestic market. Excess labor was to work in industry and service sectors, which would improve labor absorption in industry. The fact is underemployment only shifted among sectors and areas, due to population growth. Labor wages in industry increased due to economic and non-economic factors: government intervention and labor union pressures. Private consumption and growth expenditures were kept low, according to limits determined by balance of payment deficit and national output. The revolution achieved success in industrialization, heavy and light manufactured goods were developed, and industrial workers received many privileges, while farmers benefited from extended social services.

[50] Bent Hansen, ''The Political Economy of Poverty, Equity, and Growth in Egypt and Turkey'', 121.

The cutting into private sector was so extreme in Egypt. In Egypt, socialism was based on political and institutional considerations. Terms of trade, surplus in agricultural sector was absorbed by government, taxes, control over exports, selling high and buying cheap, planting according to rotation system, a means of exploiting farmers when trading crops based on government-determined rates. Land reform was highly beneficial to agricultural system, inflow of personnel, infrastructure, services, and goods to rural areas. It was difficult to extend agricultural land, urban growth, brick making, new cities, and industrial sites. Between 1952 and 1973, the economic structure exhibited the following features: The state had to control agriculture through cooperatives, which were responsible for selling inputs and buying crops. The private sector operated in small-scale industry and wholesale trade. The government had some partnerships with foreign oil firms in petroleum. Price and cost controls started during WWII, expanded in the 1960s, and affected all sectors of the economy, such as housing and industry. The goal was better income distribution and resource mobilization. Price controls were used to reduce cost of living, but they were also a means to increase consumption through subsidies.

Implications and Conclusion

To this end, Egyptian economic and political spheres were analyzed. External forces were against Egyptian will of national independence and economic freedom. Role of state in economic life and country's position in international market were changed. In 1952, the first shift occurred through end of British colony and revolution. Feudal and semi-feudal relations ruled over rural provinces. Private sector was dominant in commerce and small industries, and government slightly intervened to control foreign currencies and protect national industry. Egyptian industrial structure was monopolistic, protected industries, and small number of firms existed, markets were limited, entrepreneurs were small in numbers, and imperfect capital markets.

The Dam increased employment, absorbed building materials, increased investments in electricity, and public utilities. However, no large projects followed up. After 1974, investments in tradable goods and export industries were made, but there was no manufacturing industry or exporting sector. Even if new industries were created, they would not transform Egypt into industrial country due to consumption patterns. Egypt was in need for effective reforms and institutions. Egypt's development was not a function of nationalist political rhetoric. Although between 1958 and 1964, poverty rates declined, income increment was not received by population under poverty line. The bulk of income was directed towards those above poverty standard. Income inequality was severe. However, few years later, and due to deteriorating economic conditions, income inequality declined[51]. Rent seeking was common in Egyptian politics. Rent describes an income that would cease to exist under perfectly competitive system, which is in or about being in equilibrium. Rent differs depending on institutional aspects in the system itself. Before 1952, rent was in form of increased tariffs or government-subsidized loans to private business. Under Nasser, rent was in form of salaries to merit, informal rationing, privileges to officers.

After Charter of 1962 and October Paper of 1974, political Economy of Egypt was shaped by social compact between rulers and ruled. Goods and services were provided in exchange of political rights. In public sector, there was deviation of leadership by leaders, who detached themselves from working class to exploit it. Reducing state intervention meant liberalizing technocrats rather than reducing public sector. For any policy, there should be stated intentions and structural impact. Therefore, it must not be class biased. The regime was weak to execute all intended goals, both in Nasser and Sadat era. Conflict between economic and political interests made public sector as treadmill controlling the economy and made the private sector a center of economic activities. Nasser and Sadat era had absented effective institutions, and rule based on alliances and network of clients, authoritarianism, repression, and absent communication. The government followed a parental style; it depoliticized people and social groups. The parental government provides goods and services, but apolitical population has increasing consumption. The government would be unable to keep its pace or increase new obligations to even out any inefficiency in old obligations. Egyptian government has prioritized its own survival over other considerations, so all kinds of guided transformations of political process focused on government survival. Reforms focused more on political rather than economic considerations, so reforms were in finance, trade, tax reforms, and price controls.

Egypt was the perfect environment for cotton, a labor-intensive crop, due to warm weather, depth of soil allowing long roots to deep stick, and reli-

[51] Victor Levy, ''The Distributional Impact of Economic Growth and Decline in Egypt'', 90.

able water supply. However, the country was not successful in increasing production due to drop in yields, high water table level, and pests. Egypt faced competition from Mexico, Peru, and India. Soil during wars was exhausted due to lack of fertilizers and over-planting of cereals. Egypt could have planted plants that need small amount of water. Egypt had always a wasteful agriculture, time, seeds, illiterate farmers, and cheap labor. Egypt is an agricultural country; its policy was always shaped by its climate, location, and factor endowments. The country should have focused on labor supply; soil, climate, fruits, poultry, and dairy production. In Egypt, resources were fully exploited except for desert.

Reasons behind agricultural problems in Egypt are as follows: class structure, resource distribution, social bases of Nasser and Sadat's regime. There was no mobility of peasants and no decentralized incentives. Sadat inherited Egypt with shortages, deteriorating infrastructure, foreign debt. Agricultural output constituted about 50 percent of industrial output. In 1974, Egypt was net importer of agricultural commodities; exports of cotton and rice declined. The fragmented land meant less return due to reduced size, this can be valid for large landowners, but for small peasants, their numbers increased at expense of large landowners. Unequal subsidization took place by granting loans regardless of holding's size, and loans were in proportion to holding, so larger holding's owners got higher loans. After 1961, they were free from interest. It can, however, be argued that loans offered small farmers to produce and not to see credit as punishment.

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