CHAPTER-IV
CHAPTER IV

ECONOMIC DEVELOPMENT DURING NASSER ERA AND THE ROLE OF BUREAUCRACY

Development: A conceptual perspective

Over the years, there has been much discussion on the idea of “progress” which is very much akin to the idea of “development”. The concept of development however, in the sense of the process of national growth is of fairly recent origin. While the idea of progress has been rather controversial, the idea of development has been widely accepted and even considered as being worthwhile to act upon. It has been generally accepted that development is both an ‘economic and social process’.\(^1\) It is recognized that development concerns not only man’s material needs, but also the improvement of the social conditions of his life and his broad human aspirations. Development is not just economic growth, it is growth plus change.\(^2\) Thus, development is a complex phenomenon involving shifts among different stages of technology standard of living, level of education, mode of thinking etc. The process of social and economic development involves a variety of interrelated factors leading to change. These factors may operate singly or in combination, through a number of different models of casualty (simple
direct effect, indirect effects, requirements and complementariness, mutual reinforcements, conditioning milieus etc). For example a marked reduction in the birth rate in a country with a previous high birth rate could start a chain of effects concerning several socio-economic aspects. It could reduce the population growth rate and relieve society from the burden of non-productive new entrants. It could affect the age structure of the population and bring about changes associated with a reduction in young dependency. Various changes might take place in the socio-economic milieu of a society as a result of a significant increase in women’s education. As a result, a higher production of women might participate in the labour force; fertility rates might fall; a change might come about in the traditional role of women as housewives and mothers; socialization pattern of the children might improve; there might be better planning of every aspect of life by educated, emancipated women; and there might be more rational planning of the family size etc.

The process of development could thus bring about several changes through inter-related factors. These changes may be of several types. They may be material and easily descramble, such as a rise in the income level and greater availability of food. Changes may also occur in ways of thinking, in one’s attitude to family norms, women’s emancipation, child
labour etc. Finally, changes may take place in the social system, such as changes in the system of communication due to technological innovation.

Another point to be emphasized in this regard is that in the process of development, especially that which is deliberately introduced, total development is aimed at rather than the development of isolated individual factors. It is essential to have a unified approach to development, which reflects 'a consciousness of the conceptual and empirical inter-relatedness of all aspects of human life'. The general experience is that deficiency in any of the important factors may seriously retard the overall growth of a system. One sided emphasis on economic development or the sectoral approach to development has often led to undesirable consequences. For example, in Kenya, though the rate of economic development has been quite high by any standard (an annual increase of 6.9 percent in the gross domestic product during 1964-70), the growing economy has made the rich richer and the poor poorer. An example of rapid economic development on the one hand and slow social development on the other is provided in recent times by the petroleum producing countries of the Middle East. In Iran, for example, the rate of increase in the gross national product (GNP) during 1971-72 was 14.2 percent. This increase was 30.3 percent in 1972-73. Iran's oil revenue
was increased at a tremendous rate, from 5 billion US dollars in 1971 to 23 billion US dollars in 1974. In 1975 it went up to 25 billion US dollars. Economic growth was achieved in Iran in a comparatively short period of time. But in spite of her best efforts, Iran has not been able to achieve the same spectacular progress in the field of social development, which is a slow process, as is revealed by statistics on some of the indicators. The rate of literacy in Iran in 1975 was only 42.1 percent. The rates of male and female literacy in the same year were 58.5 and 41.5 percent respectively.

It may, therefore, be considered that development is a very complex process and there is no simple input-output law governing total; development, nor is it an inevitable biological process in which there is a built-in-mechanism for the growth.

EGYPTIAN ECONOMY BEFORE THE ADVENT OF NASSER

Despite some progress in the scope and intensity of economic activities and growth during the early nineteenth and twentieth centuries, a comprehensively planned and properly executed programme of economic development did not materialize in Egypt until after 1952. Since then, far reaching institutional changes have assisted in building the modern socio-economic infrastructure requisite for sustained or self-
generating economic growth. Concomitantly, however, population growth has soared and greatly attenuated the successes of Egypt's ambitious economic development programme. As the rate of economic growth has risen quite high in recent years, so also has that of population growth; thus, realization of the government's basic goal to improve individual living standards has suffered repeated set backs.

Two clear phases may be discerned in the economic history of modern Egypt: the pre-revolution phase—which began in 1805 under Mohammed Ali, the founder of modern Egypt and ended in 1952, and the post-revolution phase—which began with the July 1952 Revolution and is still continuing.

ROLE OF BUREAUCRACY IN THE IMPLEMENTATION OF ECONOMIC POLICY OF NASSER

Economic policy in the Middle East is dominated by the bureaucracy. This dominance is the result of three specific factors. First, the states of the region rely upon their bureaucracies to plan, co-ordinate, implement and maintain elaborate economic development plans. Secondly, the states of the region, regardless of their economic and political philosophies, possess large public sector organizations that control at minimum the allocations of state's natural resources. Thirdly,
the states of the region have manifested an increasing desire to regulate the economic activities of their citizens.

Before, July 1952 Revolution, the Egyptian economy was not growing at what could be considered a reasonable rate. A high population growth rate was coupled with almost stable real national income. The average annual rate of growth of per capita income, stated at constant prices (1953=100) was very small and equaled 0.01 percent during the period 1937-1952. The only year before 1952 in which the economy flourished were the war years. Thereafter the economy assumed the previous state of relative stagnation with a declining rate of growth of per capita income during 1947-52.¹⁰

During the period 1937-47 national income at constant prices increased at an average annual rate of 3.7 percent, the corresponding average annual rate of population increased was 1.77 percent, yielding an average annual increase in per capita income in excess of 1.5 percent.¹¹ Even though World War II gave some impetus to industry, stimulated employment in the big cities, and brought some prosperity to the nation’s economy, these effects were temporary and could not be maintained after the war ended. Between 1947 and 1952, due primarily to inflation and widespread unemployment, the average annual rate of increase in national
income fell to only one percent, and per capita income deceased by one-half of one percent. The post war dip of death rates, after over a decade of gradual decline, set off a spiraling increase in population which flooded the labour market and greatly intensified economic deterioration. By 1952, the population reached 21.6 million; per captia income decreased sharply and living standards declined to marginal levels.

Throughout this period the Egyptian economy remained substantially agrarian. In 1952, over 65 percent of the population derived its livelihood from agriculture. 70 percent of the country’s small industrial labour force worked in factories depending upon raw agricultural products, and two-third of the nation’s capital was invested in agriculture. For the same year, 93 percent of the country’s exports were agricultural, and because the greatest proportion of the land was tied to cotton production, a third of Egypt’s imports consisted of food and other agricultural productions.

The full impact of the pressure of population upon agricultural resources may be seen by comparing the growth of each. During the first half of this century, the population doubled whiles the cultivated area increased by only one sixth and the crop area by one third. In 1907 the population of Egypt amounted to 11,3 million, the cultivated area was 5.3
million feddans, and the cropped area (with more than one crop per year in some areas) was 7.7 million feddans. The population grew to 22 million in 1952; the cultivated area reached 5.7 million feddans and the cropped area 9.3 million feddans.

Egypt's agricultural problems were further aggravated by inequality in the distribution of land and income. In 1952, 93.9 percent of small land owners possessed 33.5 percent of the total land, whereas 6.1 percent of the land lords possessed 66.5 percent of the land in the form of large estates. The instability in the rights of property did not encourage the tenants or small land owners to undertake capital improvements.

A number of estimates have been made of Egypt's national income before the revolution; the following estimates were given by Charles Issawi:

The first attempt, in 1922, put the total at £ 301 million pounds, but this figure has been criticized as too high and alternative figures of 270 million and 200 million were suggested. Another rough estimate gave a figure of £265 million for 1925. For the 1930's the following figures are available (£E): 185 million in 1935, 180-200 million in 1938-39, 220 million in 1939 and 168 million in 1939. Post war estimates range from 504 million and 600 million in 1945 to 860 million in 1950. A series
prepared by National planning Committee put gross domestic product (GDP) at market prices at £E193 million in 1938, 660 million in 1945 and 858 million in 1950; at 1950 prices the figures were £E 634 million, 668 million and 558 million respectively.

The general trend indicated by these data is confirmed by estimates made by two Egyptian economists who put annual per capita income, at 1913 prices as follows (£E): 7.6 in 1880-97, 12.4 in 1913, 12.2 in 1921-28, 8.2 in 1930-33, 9.6 in 1935-39 and 9.4 in 1940-49. A French economists figures (also at 1913 prices) were, 12.4 for 1913, 8.0 in 1937, 7.5 in 1945 and 8.2 in 1948.17

Summarizing the whole economic scenario of Egypt before 1952 it can be said that by discouraging industrial growth and the rational exploitation of scanty natural resources, foreign occupation and dynastic rule based on the vested interests severely handicapped the growth of Egypt’s economy before 1952. Without industry to absorb the increase in population, an inevitable imbalance in growth among the sectors of economy led to disguised unemployment and under-employment. It also reduced the individual share of the limited services available such as health and education, which in turn reduced productivity and curtailed the level of income. Annual average per capita product in 1952 was 86
dollars. This per capita income represented less than one tenth that of Canada, Switzerland or the United States, whose averages for the same period were over 1000 dollars. Egypt’s per capita income amounted to one-third the average of most countries which were themselves in the process of development, such as Argentine (460 dollars). It exceeded in per capita income only Pakistan (70 dollars) and India (60 dollars). Mounting population pressure virtually stabilized real national income prior to 1932. Computed at constant prices (1953=100) the average annual per capita income growth rate was only 0.01 percent between 1937 and 1952.

**PLANNED ECONOMIC DEVELOPMENT DURING THE NASSER ERA:**

In 1952, the immediate aims of the revolutionary officers were clear: to get rid of the monarchy, eliminate foreign especially British influence and reform Egyptian society. The 1952 revolution demarks considerable changes in long run economic structure of Egypt and its political framework. It was not until that year that the systematic drive for development was launched.

Egypt’s growth experience in the second half of the twentieth century started well for the economy, at least in certain aspects. Egypt was
enjoying surplus of sterling reserve accumulated during the war years. Moreover the Korean War caused a rise in forces of cotton; the Egyptian economy was growing during the first two years of this period at an annual growth rate of 7-8 percent. However, such growth rate could not be maintained for long. A sharp decline was registered during the period 1952-1954 followed by a slow recovery in 1955-56. An examination of the socio-economic conditions prevailing in the country at that time would make it difficult to expect a continuation of the rapid rate of growth achieved in the immediate first war period. With a per capita income not exceeding 37 Egyptian pounds and massive illiteracy among the working age population, both indicating the poor quality of human capital in the country as well as exclusive reliance on the private sector and foreign investment and no active part for the government in promoting economic growth, it is hardly surprising that the high rate of growth that marked the immediate post war period could not be maintained for long.  

With the new regime several measures were introduced in the effort to transform the economy into ‘State socialism’ with planning as the major instrument for development. The principle objective of the Egyptian plan was to double national income over a period of ten years (1960-70) with a 40 percent increase by the end of the first phase of
the plan (1965). This aimed at an annual growth rate of 7 percent during the first five years plan. Another objective to be accomplished along with the increase in national income, was to secure more equitable distribution of income.

On the social dimension, developmental efforts aimed at the following important general objectives. First, achieving the highest possible rate of employment, recognizing that every citizen has a right to work. Second, educating individuals, offering medical care and other social services. Third, helping individuals to participate in decision making in matters of public concern, on the basis of quality of opportunity. Finally, reaching a level of sufficiency where every citizen could enjoy a reasonable standard of living.

It was also realized that most of the Egypt’s economic development problem were attributed to the rapid increase in population resulting from the great increase in birth rates over death rates. Therefore all efforts exerted for the development of national economy and the promotion of the standard of living would be impeded by the accelerated population growth unless it was placed within the framework of the resources and possibilities available.
The members of the Revolutionary council which overthrew King Farouk in 1952 did not then have any definite economic ideology, other than unhappiness about the privileged position of the wealthy landed elite. President Nasser and other leaders started in the early 1950s that the policy of the government was to eliminate the special privileges of the wealthy, but otherwise to encourage the private sector in every way possible. The comprehensive agrarian reform measures of 1952 and 1961 were primarily designed to achieve the former objective by setting maximum limits on individual land ownership and expropriating the remainder. As for the later objective several changes were made in the tariffs: the duties were raised on competing manufactured goods and abolished or reduced on raw materials and equipments. Law number 430 was passed in 1953 to exempt new approved companies from income tax for seven years, and plant expansions were exempted from tax for five years. A more liberal attitude was also exhibited towards foreign capital in four laws approved in 1953 and 1954. Under these laws, foreign investors were allowed to have majority control of companies operating in Egypt, rather than only 49 percent according to the 1947 law, and provisions regarding transfer of profits and original capital abroad were also eased. The mining and quarrying law of 1953 was considerably more liberal than
that of 1948 in that it permitted the granting of new concessions to foreign
as well as domestic petroleum companies and allowed longer
extensions.\textsuperscript{21}

In the beginning of the post-revolutionary era (between 1952-1960)
the revolutionary government’s economic policies have been directed at balanced
development and growth of the country’s human, agricultural
and industrial resources. Persistently high rates of population growth
greatly intensified the demand for basic goods and services such as food
products, which constituted a sizeable portion of Egypt’s import trade and
health and educational services, which were declared to be basic rights of
all Egyptians. Thus, the expansion of public services and agricultural
development was accorded special attention in the 1950’s. Success in
these sectors, together with improvements in transportation and
communication, provided valuable support to the more fundamental goal
of developing light and heavy industries.

After 1956 witnessed the maturation of certain trends, which were
embryonic during the period 1952-56, but come to full bloom year later.
Signs for state activism in promoting socio-economic development could
be easily seen in many of the government measures that succeeded each
other rapidly during these years. Such sign included the establishment of
the two councils which merged together in the permanent council for production and services that pioneer the efforts to carry out a number of industrial projects and the setting up of a national planning committee within the council of ministers in 1955 which paved the way for the adoption of sectoral and comprehensive plans between 1957 and 1965. More radical measures for agrarian reforms and nationalization of large foreign and Egyptian large and medium size enterprises were introduced successively in 1956, 1957, 1961 and 1964. All these actions led to the expansion of the public sector which came to dominate the largest part of the economy outside the agriculture. The expansion of the public sector was also due to public investments, which resulted in the establishment of a large number of state owned enterprises, particularly in manufacturing. The government undertook almost exclusively infrastructure investments. One of the major infrastructure projects during this period was the building of Aswan high dam with Soviet aid. It was hoped that it would enable the country to increase its agricultural production through cultivation of desert land, providing much needed irrigation to agriculture in Upper Egypt besides generating more electricity for both industrial and domestic consumption.
The rate of total investment during the period 1952-1960 fluctuated between 14 and 17 percent. Productive investment—total investment minus investment in services and public utilities as a ratio of national income did not exceed to 10 percent. However realizing their socio-economic importance, investment in housing, education, health and other social services amounted to more than 40 percent of the total investment for the year 1952-53 and to about one half of the total investment by 1956-57. However, beginning with 1957-58 the share of the public service sector declined sharply until by 1959-1960 it reached less than 30 percent of the total investment. The share of social overhead outlays, such as roads, bridges and means of transportation, was also high, rising from 16 percent of total investment in 1952-53 to over 20 percent in 1959-60.

With respect to investment allocation for the productive sectors, industry and electricity took first priority. Comparison of the relative shares of agriculture and industry-electricity (all non-agricultural production) to national income and investment is given in (table 4.1) and shows that the industry and electricity sector’s contribution to national income increased from 18.8 percent in 1952 to 25 percent in 1960, agriculture’s contribution fluctuated around 33 percent throughout the period. This picture is reversed with regard to investment, that is, the
portion of total investment allocated to agriculture rose from 11.5 to 18.4 percent, while the allocated to industry and electricity fluctuated around 30 percent. Over the entire period 1952-1960, investment in agriculture totaled $462.6 million while those in industry and electricity amounted to $1011.1 million. Increments in income for the two sectors were 374.3 and 434.7 respectively, yielding a ratio of income to investment of 75 percent for agriculture and 43 percent for industry and electricity. By 1960, the percentage of the labour force in agriculture was 54.3 while in industry it was 10.2.
TABLE 4.1
PERCENTAGE SHARE OF AGRICULTURE, INDUSTRY AND ELECTRICITY IN INCOME AND INVESTMENT

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry and Electricity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1952-53</td>
<td>31.3</td>
<td>18.8</td>
</tr>
<tr>
<td>1953-54</td>
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<td>19.7</td>
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<td>1958-59</td>
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<td>1959-60</td>
<td>31.4</td>
<td>24.5</td>
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<tr>
<td>1960-60</td>
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<td>25.0</td>
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<tr>
<td>Investment</td>
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<tr>
<td>1952-53</td>
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<td>29.8</td>
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<tr>
<td>1953-54</td>
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<td>29.1</td>
</tr>
<tr>
<td>1954-55</td>
<td>10.5</td>
<td>28.0</td>
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<td>1955-56</td>
<td>10.8</td>
<td>34.1</td>
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<tr>
<td>1956-57</td>
<td>13.2</td>
<td>26.8</td>
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<tr>
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<td>26.2</td>
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<tr>
<td>1958-59</td>
<td>14.3</td>
<td>30.1</td>
</tr>
<tr>
<td>1959-60</td>
<td>17.2</td>
<td>32.4</td>
</tr>
<tr>
<td>1960-61</td>
<td>18.4</td>
<td>32.3</td>
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The years 1956-61 witnessed a growing participation of the government in the economic life of the country, both through government acquisitions and through government regulations and controls. The wave of comprehensive nationalization was foreshadowed in 1960, when disagreement arose with the bank of Misr group over the direction of private investment, the result being the group’s nationalization. The laws of July 1961 decreed a sweeping nationalization of the private sector, including the leading navigation company, Cotton Pressing establishments, the gas and electricity company of Alexandria, the Cairo Tramway company, all bank and insurance companies, and 42 large industrial transport, commercial financial and land reclamation companies. Nearly half of all cotton exporting firms was nationalized, as were 82 other companies. The stock exchange and the cotton futures market were closed down, and individuals and corporations were prohibited from owning more than £10,000 in shares in each of 148 major companies. Imports could only be made through government owned companies and commercial agencies must be at least 25 percent government owned. All public works on behalf of government departments and agencies valued at £30,000 or over, must be undertaken by companies with at least 50 percent government equity participation.
The results of all these acts of nationalization was that the share of the government sector in the national income may have risen from less than 20 percent in 1959 to 40 percent in 1963 and 50 percent by 1967. The Egyptian government share in industrial value added was 64 percent by 1967. The Egyptian government share in industrial value added was 64 percent and in firms with ten or more employees it was 90 percent. Private enterprise remained significant only in retail trade, handicrafts and repair services, housing, the service sector, and agriculture and in the smaller less modern industrial plants.\(^{27}\)

During the period 1952-60, the Egyptian population increased from 21.8 million, to 26.1 million and per capita real income increased from 86 to 117 dollars. The average annual compounded rate of growth of national income at constant prices was 4.89 percent and that of per capita income at constant prices was 2.37 percent. The population growth rate was 2.5 percent for the same period thus, growth of economy was capable of meeting the rate of population growth.\(^{28}\)

The first four years of the post-revolutionary phase from 1952 to 1956, saw the economy almost entirely in private hands with state's role limited to infrastructure investments and the provision of social services. The 1952 revolution brought Nasser to power but at first the new
government seemed to accentuate rather than diminish the relative weight of the private sectors. Private industry demanded and obtained lower taxes and more protection from the world economy, through the mechanism of lowering of duties in imported raw materials and capital goods and higher tariffs on other imports which resulted in lower costs and higher prices, hence higher profits. In addition the flow of foreign capital into the indigenous economy was encouraged, allowing foreign businessmen to hold majority interests in Egyptian companies.

One of the first elements of change was the agrarian reform, which set limits on the extent of rural land holdings and offered incentives for formation of the cooperatives.

From 1957 to 1960, policy options changed and there was a decided new impetus towards progressive rationalization of the economy. In this period the major foreign owned enterprises were nationalized-French and British companies in particular-and so were Egyptian banks. At the same time the first five year plan for agriculture and industry were launched as well as general plans for economic and social development. In the wake of these measures capital formation in Egypt came rapidly under the control of the government authorities.
By the end of 1959 Egypt, Nasser and his Finance minister Dr. Abdul Moneinet Kaissouny, ready for a new move towards socialism, but this time they were going to take a deeply reluctant Syria at least part of the way with them. In Egypt the move began in February 1960 with the nationalization of the bank Misr and the National Bank of Egypt. In June 1960, the press was nationalized, but the really big step was taken in June and July 1961. In a series of decrees the government took over the entire import trade of the country and a large part of the export trade including cotton, which is the biggest item in Egypt’s exports. All banks and insurance companies were nationalized and about 300 industrial and trading establishments were taken over either wholly or partly by the state. A highly progressive taxation system was introduced with the declared objective of making £E 5,000 a year, the maximum income in Egypt. In July 1960 a comprehensive five year plan for 1960-1965 was launched, this was to be followed by a second five year plan for 1960-1965 was launched, this was to be followed by a second five year plan for 1965-70 with the target of doubling the national income by 1970. The 1958 five year plan for industry, which already had considerable success in speeding up industrialization, especially in light industry, was absorbed into new five year plan, which now covered the agricultural sector as well
This time eighty percent of the £E 1,643 million to be invested would be undertaken by the public sector. About fifty percent could be invested would be undertaken by the public sector. About fifty percent could be allocated to industry and twenty five percent to increasing the agricultural potential. From 1961 to 1973 the Egyptian economy became an almost completely planned system and the private sector was relegated to a marginal role. In that period emphasis was placed on the productive sectors, with priority being given to industry. A ten-year plan for comprehensive social and economic development was initiated to cover the period 1960-1970 and it was initially aimed at doubling the national income within a decade. In the context of rapid population increase, late president Nasser passed the following remarks on that occasion:

In 1959, the planning experts maintained it was possible to double the national income in twenty years and the issue was discussed in the council of Ministers at several meetings.

We said that we could not wait for twenty years because by that time the population would increase by about fifteen million. If we double the national income in twenty years we would achieve nothing, we would merely have met the requirements of the newly born and failed to raise the
standard of those who are actually living. Moreover, we would fail in finding work for those who are presently unemployed or the coming generation. Thus we have to double the income in ten years.\textsuperscript{31}

During the period (1961-1973), infrastructure, mining and basic manufacturing, banking and insurances, all imports and three-quarters of exports came under the control of the public sector, while only domestic commerce, real estate, construction and light industry remained in the hands of the private sector. An important innovation of this phase, perhaps the one that more than any other would condition subsequent development, was the implementation of a policy of social welfare devised to government income distribution and guarantee a minimum subsistence level to the population. The decisive element in this strategy was, and still is, the policy of price controls and the system of subsidies.\textsuperscript{32}

Table 4.2 indicates that during the period of rapid industrialization, GDP growth accelerated to an annual rate of 10 percent while the share of GDP absorbed by investment rose to 16.8 percent. This trend was accompanied by a rise in the deficit of goods and services which went up to 4.1 percent of GDP. After 1967, however, the year of the war with Israel and the closure of the Suez Canal, the economic expansion slowed down.
TABLE 4.2

AGGREGATE DOMESTIC EXPENDITURE, 1952-53 TO 1973-76

<table>
<thead>
<tr>
<th>Period (yearly averages)</th>
<th>GDP rate of growth at current prices</th>
<th>Expenditure as percentage of GDP</th>
<th>Deficit for goods and services as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Gross Investment</td>
<td>Public Consumption</td>
</tr>
<tr>
<td>1952/53 1957/58</td>
<td>7.1</td>
<td>14.2</td>
<td>17.0</td>
</tr>
<tr>
<td>1958/59 1965/66</td>
<td>10.1</td>
<td>16.8</td>
<td>19.7</td>
</tr>
<tr>
<td>1966/67 1971/72</td>
<td>6.2</td>
<td>13.5</td>
<td>23.9</td>
</tr>
<tr>
<td>1973-1976</td>
<td>15.3</td>
<td>21.2</td>
<td>25.4</td>
</tr>
</tbody>
</table>

Between the two Arab-Israel War (1967-73), the Egyptian economy experienced an arrest of the tumultuous growth of previous years. A number of structural problems thus came to the surface, both domestic and external in nature, which would later prompt the charges introduced by President Sadat under the ‘Open Door Economic Policy’ (ODEP).³³

In spite of endless challenges and difficulties,” the first five year plan (1960-61 to 1964-65) realized an average annual compound rate of growth in the national income at 1961 constant prices of 6.5 percent. The growth rate achieved was one of the highest among developing countries during the same period.³⁴

The investment pattern outlined by the first five year plan was a significant departure from previous years. The proportion of total investment allocated to the industry related production sectors (including basic industry, electricity and construction) rose from about 30 percent in 1960’s to 42.1 percent in 1960-61 and 59 percent in 1964-65. The five year average percent allocation to these sectors was over 50 percent of total investment, the average for agriculture for the same period was 7.8 percent, for transportation and communication, 20.7 percent and for all public services, including housing 20.8 percent.
The growth rate of the national income in 1965-66 amounted to 4.4 percent, but dropped to 0.7 percent during 1966-67 due to adverse conditions in agriculture, mining and industry. The annual growth rates in national income and per capita real income are shown in table 4.3, the rate of approximately 3.7 percent in per capita income during the first five year plan (1960-65) was significantly higher than that of 2.4 percent between 1952 and 1960. Continuously high rates of population increase, however pushed the growth rate of per capita income down to 1.7 percent in 1965-66 and to -2.2 percent in 1966-67.35

**TABLE 4.3**

**ANNUAL RATES OF GROWTH IN NATIONAL AND PER CAPITA INCOME**

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth rate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National income (%)</td>
<td>Real per capita income (%)</td>
</tr>
<tr>
<td>1052-1960</td>
<td>4.9</td>
<td>2.4</td>
</tr>
<tr>
<td>1960-1965</td>
<td>6.5</td>
<td>3.7</td>
</tr>
<tr>
<td>1965-1966</td>
<td>4.5</td>
<td>1.7</td>
</tr>
<tr>
<td>1966-1967</td>
<td>0.7</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

*Average annual compounded growth rates for period at constant prices.

Source: Ministry of Planning, Follow up and Evaluation, p.69.
Rapid population growth also nullified efforts to raise the level of productive employment. Despite considerable expansion of employment opportunities, which brought an increase in the size of the labour force from less than 7.7 million employed persons in 1960 to 7.9 million in 1965, 8.1 million in 1966 and 8.5 million in 1967, however the ratio of the employed persons to total population persisted at 27 percent level. Though there were no significant variation in the distribution of the Egyptian labour force among the various sectors during the 1960's, public service sector, however registered a dramatic increase of 19.3 percent of the active labour force, a symptom of over-saturation in government jobs. Unemployment, perhaps a more sensitive index of the flood of jobseekers, was reported at 6.9 percent of the labour force in 1965, 7.1 percent in 1966 and 8.9 percent in 1967, not to mention disguised unemployment in various sectors.36
GROWTH OF INDUSTRY SINCE 1952

Egyptian government was forced on a determined course to industrialization by the realization that the race between population and cropped area seemed to be losing one despite the potentially fantastic expansion of cultivation after completion of the High dam. Though getting off to a slow start in 1952, industrial production increased dramatically between 1956 and 1961, and even more dramatically during the first five year plan. Nationalization was major instrument for providing the capital so desperately needed for initiating and expanding industry. During the 1960’s, industry and business underwent a process which some writers term “Egyptianisation” whereby the government gained controlling interests but left considerable room for individual initiative and influence.

From the outset, Egypt was faced with the critical problem of capital formation, since the rate of population increase adversely affected the ability of the country to accumulate savings. Since the income of the majority of Egypt’s people was low, it was difficult to abstain from consumption in order to increase savings. In fact consumption increased during the five year plan by 46.9 percent. The rate of saving during the
first plan reached 13.7 percent of the national income and averaged 13.5 percent during 1965-67. Consequently, population growth and population characteristics tended to reduce the amount of savings that could be set aside for capital formation.

Although industrialization efforts had already begun in Egypt early in the 19th century, it is only since 1945 that production levels in industry have increased systematically, if with some fluctuations and that the industrial sector has increased its share of GDP by a significant amount (Table 4.10) During the period 1952-1972, industrial production has been increasing at a rate of 11.4 percent annually except in the periods 1964-68 and 1971-72 when there were two major slowdowns. In 1952, industrial production did not exceed £E232 million, while in 1970-72 it surpassed £E 424 million. Since 1952 the share of industrial sector in the national income has risen from about 3 percent to about 22 percent in 1970-71.39
### TABLE 4.4
CONTRIBUTION OF INDUSTRY TO GDP AT CONSTANT PRICES
(IN MILLIONS OF EGYPTIAN POUNDS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry in GDP</th>
<th>Index</th>
<th>Annual rate of increase</th>
<th>Industry in GDP</th>
<th>Index</th>
<th>Annual rate of increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960/61</td>
<td>285.6</td>
<td>111.4</td>
<td>11.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1961/62</td>
<td>309.9</td>
<td>120.9</td>
<td>8.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962/63</td>
<td>329.2</td>
<td>128.4</td>
<td>6.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1963/64</td>
<td>369.6</td>
<td>144.2</td>
<td>12.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964/65</td>
<td>385.0</td>
<td>150.2</td>
<td>4.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965/66</td>
<td>394.3</td>
<td>153.8</td>
<td>2.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966/67</td>
<td>397.1</td>
<td>154.9</td>
<td>0.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967/68</td>
<td>378.4</td>
<td>147.6</td>
<td>-4.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968/69</td>
<td>415.6</td>
<td>162.1</td>
<td>9.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969/70</td>
<td>442.4</td>
<td>172.6</td>
<td>6.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969/70</td>
<td>542.0</td>
<td>100.0</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970/70</td>
<td>600.2</td>
<td>110.7</td>
<td>10.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971/72</td>
<td>615.9</td>
<td>113.6</td>
<td>2.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>615.4</td>
<td>113.5</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>589.3</td>
<td>100.0</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>602.6</td>
<td>102.2</td>
<td>2.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>773.6</td>
<td>121.2</td>
<td>(11.9)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Advancement in industry is considered as the most important means for economic growth in Egypt. Amongst the advantages of industrialization are raising the standard of living, the diversification of the economy, the production of industrial goods, creation of more opportunities of work not only in industry but also in the subsidiary services attached to the development in industry and raising the productivity of manpower.

Investment in the industry (excluding electricity and construction) was £E 962 million during the period 1959-60 to 1969-70. The most important existing industries at the beginning of the fifties were those of sugar, spinning and weaving, cement and fertilizers, production in these industries has increased many times due to the expansion and establishment of new industrial units. Many important industries have been promoted such as chemical and plastics. Industrial planning takes into account the demands of heavy industrial products in addition to those for consumer goods.

Major industries were concentrated in the metropolitan areas of Egypt. More than 22 percent of the industrial establishments were in Cairo alone during 1960-61. As early as the first five year plan (1960-65)
one of the aims of the industrial planning was to distribute industry wherever possible among different regions of the country. This was partly achieved in the first plan and thereafter.

*Industrial growth has been quite satisfactory since the launching of the Open Door Economic Policy (ODEP) by President Anwar al-Sadat. In 1979 the value of industrial output (measured at 1975 prices) rose by more than 10 percent, whilst the 1975-79 average was over 7 percent. It is difficult to chart the current progress of Egypt's industrial sector because of lack of data but recent trends may be seen in Table 4.5. The relative weight of the basic consumption goods (food stuff, textiles) has fallen rapidly whereas the importance of intermediate and semi-finished produce has risen. Consumer durables and investment goods are also increasing in importance.*
### TABLE 4.5

COMPOSITION OF GROSS VALUES ADDED BY CATEGORIES OF INDUSTRIES (IN PERCENTAGES)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Basic consumer goods</td>
<td>79.9</td>
<td>55.0</td>
<td>51.6</td>
<td>49.7</td>
</tr>
<tr>
<td>B. Intermediate industries</td>
<td>19.7</td>
<td>38.2</td>
<td>40.6</td>
<td>40.6</td>
</tr>
<tr>
<td>C. Consumer durables/equipments</td>
<td>0.5</td>
<td>6.8</td>
<td>7.4</td>
<td>9.3</td>
</tr>
</tbody>
</table>

Role of Subsidies in the Egyptian economy:

Subsidies played a crucial role in Egypt’s public finance and in the Egyptian economy in general. The relative weight of subsidies (for consumer goods in particular) increased steadily throughout the 1970s *(Table 4.6)* since 1973 expenditure on subsidies has increased sharply and constantly in concomitance with the drastic increases in world prices, which strongly influence the subsidies. Apart from rice all the major subsidies foodstuff are largely or totally imported, and the import share for those not totally imported has been growing. Food subsidies may be categorized as ‘direct’ subsidies, which are put under the head of the ‘cost of living subsidies’ item of the government budget, i.e. subsidies for wheat, flour etc, and as ‘implicit’ subsidies, which consist of the losses borne by the government owing to the difference between domestic production costs and the selling price to the consumer, as in the case of rice subsidy.
### TABLE 4.6

**COST OF LIVING SUBSIDIES, 1973 TO 1979**

**(MILLIONS OF EGYPTIAN POUNDS)**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General authority for supply commodity (GAS)</td>
<td>115.5</td>
<td>337.2</td>
<td>449.3</td>
<td>352.4</td>
<td>407.2</td>
<td>434.7</td>
<td>995.7</td>
</tr>
<tr>
<td>2</td>
<td>Others</td>
<td>153</td>
<td>91.1</td>
<td>131.0</td>
<td>105.8</td>
<td>88.6</td>
<td>246.1</td>
<td>292.7</td>
</tr>
<tr>
<td>3</td>
<td>Total</td>
<td>130.8</td>
<td>428.3</td>
<td>580.3</td>
<td>458.2</td>
<td>495.8</td>
<td>680.8</td>
<td>1288.4</td>
</tr>
<tr>
<td>4</td>
<td>Percentage share GASC <em>(itm 1 /item 3)</em></td>
<td>88.3</td>
<td>78.7</td>
<td>77.4</td>
<td>76.9</td>
<td>82.1</td>
<td>63.9</td>
<td>77.3</td>
</tr>
</tbody>
</table>

Source: Egyptian Ministry of Finance

The second category also includes subsidies on non-food items, such as electricity, gasoline, automobiles and so on. This second item does not appear in the state budget as a subsidy; instead it takes the form of losses for public enterprises and is thus to be considered a form of price administration.

Subsidy expenditure as a share of the overall budget deficit has grown steadily and now represents more than 14 percent of total public expenditure. This fact, along with some other considerations, had sparked an intense and widespread debate amongst Egyptian politician and
scholars on the consequences of the subsidies for the Egyptian economy and on the necessity or desirably of eliminating them.

Subsidies are important because they play a key role:

(i) In determining the distribution of the income (and because they are essential for the maintenance of subsistence level income for the bulk of the population).

(ii) In determining the structure of relative prices and their allocative role.

(iii) In determining the performance of the inflation process.

(iv) As a determinant of the state’s budget deficit and its financing (almost exclusively by liquidity creation)

(v) And because of the repercussions on the country’s balance of payment.

Maintenance of subsidy system is considered a necessity for socio-political as well as income distribution reasons. However, the damage this system does to the Egyptian economy is becoming more and more evident. As far as income distribution is concerned, the subsidy system can neither alter nor minimize the income gap between the rich and the poor—no doubts it possibly keeps the living standards at a subsistence level. Further, it should be noted that the present subsidies system also
covers non-subsistence goods from which even, and the case of subsidies for gasoline, automobiles and electricity only the higher income group benefit.

As far as the impact of subsidies on the relative price structure is concerned, official sources themselves admit that they project an excessively low prices, which do not cover even the operational costs and give rise to a distorted cost structure for services (considered as production inputs). The present system of subsidies is thus a factor which contributes to a poor allocation of resources and is therefore a hindrance to greater productive efficiency and an impediment to gain in competitiveness for industrial sector. Subsidies also affect adversely the terms of trade between agricultural and industrial sectors.

Keeping the prices of farm products much lower than the prevailing international market prices discourages farm production and encourages migration from countryside to urban areas, with a whole series of easily imaginable negative consequences. In the long run, the maintenance of subsidies may increase the system's inflationary tendencies in that it does not permit sufficient growth of productivity, owing to its perverse effects on the allocation of resources. Taking all these considerations together then, the existing subsidy system, conceived to protect the real living
standards of the poor, risk aggravating their problems because of its inflationary potential which does nothing to help narrow the gap between the poor and the rich classes.
REFERENCES


12. Ibid.


22. Comparable figures of labour force distribution in 1947 are 53.5 percent in agriculture, 5.7 percent in industry, 5.8 percent in commerce and transport, 23.8 percent in services and 11.1 percent is unclassified. Demographic yearbook, New York, United Nations, 1956.


27. Gamal Abdel Nasser, Speech at the National Assembly at the opening meeting of the 3 second session (November 12, 1964)”, in Arab political Encyclopedia, Documents and notes, Cairo Documentation Research Center, Information Department, October-December, 1964 p. 36.


30. The dissolution of the union with Syria in 1961 forced Egypt to carry out the plan from a smaller base than originally intended, two cotton worm plagues one in 1961 which ruined one third of the crop and cost Egypt £70 million in foreign exchange earnings, and the other in 1966-67 which greatly reduce the production of cotton-affected the Egyptian economy badly. See Shanawany, H. Economic development, Op cit. p.152.

31. Shanawany, H. Economic development, Ibid.


34. According to world bank figures for 1979 the annual per capita income in Egypt was 480 dollars, well below that of Morocco (740) and Tunisia (1,120) and at the other end of the scale from Kuwait, the richest of the Arab countries, with its annual income of 17,000 dollars per head. See Ibid. p.84.

36. Khalifa, A.M. The population of the Arab Republic of Egypt, 
37. Ibid.
38. ESU (Economic studies unit, Ministry of Economy, Foreign trade 
    and economic cooperation. Recent Development in the Egyptian 
    economy, January 1982, minmen.
40. ESU, Ibid.
41. Papanek, G. et. al. A report of the industrial strategy assessment 
    project for the US Agency for International Development, 1982, 
    mimeo as cited by Aliboni, R. et. al. (ed.) Egypt’s economic 
    potential, op. cit., p.48.