Sisi’s Egypt: Building Political Legitimacy amidst Economic Crises

Ahmad Shokr

On November 3, 2016, the government of Egyptian President Abdel Fattah el-Sisi accelerated the implementation of a set of economic decisions that previous governments had feared to undertake. The reforms—an austerity program including subsidy cuts; currency reform; and increased indirect taxes—have been gradually adopted in the lead-up to an agreement for a major loan from the International Monetary Fund (IMF).

Egypt’s decision to float its currency immediately caused the value of the Egyptian pound to crash almost 50 percent against the U.S. dollar. Along with earlier subsidy cuts, these reforms have created a set of inflationary pressures with which Egyptians of varying incomes and social backgrounds have struggled to deal. While lower-middle class and poor Egyptians, who spend a greater percentage of their income on food and utility bills, have predictably struggled to pay for daily necessities, more affluent Egyptians have also faced growing economic difficulties, as the costs of private school tuition and imported goods are rising considerably.¹ These painful measures have accordingly frustrated many Egyptians, even as many observers see them as necessary to restore economic stability. And the reform program raises questions, not only about who might benefit (or not) from these reforms, but regarding how Sisi’s chosen economic course might affect the government’s political legitimacy in the coming years.

This Brief argues that under current economic conditions, the Sisi government will find it difficult to use economic policy as a means of building a durable social coalition that can strengthen its political authority.

¹. These figures are based on average spending patterns and may not reflect the experience of all Egyptians.
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To remain in power, the government will likely rely more heavily on other means, like continuing to convince Egyptians of the necessity of a strong ruler to maintain order and security through the heavy-handed use of force.

With the IMF having approved a $12 billion loan to Egypt in November, a fair amount of media attention has been devoted to Egypt’s growing economic crisis. Much of the coverage, focusing on the country’s macroeconomic performance, has blamed the Sisi government for economic mismanagement and questioned whether the government’s austerity policies will indeed help cut its budget deficit, correct its balance of payments difficulties, and restore economic growth. This Brief takes a different approach, considering the challenges facing the Egyptian government in trying to forge a new social bargain in which it can anchor its claims to political legitimacy. It will argue that unlike previous governments in Egypt’s postcolonial history, the Sisi government has limited options in trying to build a broad and durable social coalition, for several reasons:

1. It has limited fiscal resources at its disposal, especially with Egypt’s debt service obligations due to rise in the near future;
2. Large sections of Egypt’s variegated middle class will be adversely affected, rather than co-opted, under the current policies;
3. The main beneficiaries of the Sisi government’s economic program are those segments of the middle and upper classes connected to the Egyptian military and its economic activities, and these will likely prove insufficient to build a sustainable social base for years to come.

The current economic program, supported by the IMF, is being implemented in the context of decades of free-market policies that have slowly caused Egypt’s Nasser-era social coalition to unravel since the 1970s. In the absence of a new social contract that can serve as the basis of its rule, the Sisi government is left with limited options in attempting to sustain its political legitimacy. It can continue to buttress an alliance it has been creating between the military and its web of economic enterprises, foreign capital (especially from the Arab Gulf states), and select local oligarchs; or it can open its political system to allow for other actors to participate in the political and economic decision-making process as a way to strengthen its legitimacy in the long term.

The Fiscal Straitjacket

Since the 2011 uprising against former president Hosni Mubarak, the Egyptian government has faced growing deficits both in its budget and in its balance of payments. The budget deficit, which reached over 11 percent of GDP in the 2015–16 fiscal year, is due largely to the state’s overspending on three major items: an unwieldy subsidies program, salaries for a mammoth bureaucracy, and debt servicing. The balance of payments crisis is in large part the consequence of a drop in tourism and foreign investment that followed the events of 2011. The result has been a shortage of foreign currency, with the country steadily losing its ability to pay for basic imports.

After 2013, the Egyptian government attempted to address these problems through a series of measures. It tried to create more income through large infrastructure projects, like the expansion of the Suez Canal. Though this
is part of a long-term strategy to more than double Egypt’s annual revenue, it has so far failed to generate more income and has created more pressure on the state budget. It then made concerted efforts to attract foreign investment, especially through a much-publicized 2015 conference on economic development in Sharm El-Sheikh, but a substantial increase in foreign investment has failed to materialize. By the fall of 2016, the government had turned to the IMF for a $12 billion loan over three years to help plug its budget deficit and correct its foreign exchange difficulties. But the loan is conditional upon the implementation of an austerity program, including cuts to fuel subsidies, currency devaluation, and more indirect taxes on consumer goods. These policies raise important questions about how the cost of fiscal restructuring will be distributed across different segments of Egyptian society.

In an effort to demonstrate its commitment to market reforms in order to secure the IMF loan, the government floated the Egyptian pound on November 3 and has continued to liberalize fuel prices that had been heavily subsidized for decades. In August 2016, the government approved a new 13 percent value-added tax, with exemptions for some basic goods and services. These policies are undoubtedly intended to address Egypt’s twin deficits, but they also shift a major share of the burden for fiscal restructuring onto the middle class and the poorer segments of Egyptian society, who will suffer most from inflation and higher taxes.

While the government has considered the implementation of some alternative policies alongside or in place of this kind of austerity—specifically, taxing the assets and/or business activities of the richer segments of Egypt’s population—it has temporarily shied away from these alternatives out of fear of provoking anger from economic elites. As a result, policies like higher taxes on income (particularly on those who earn over 1 million LE per year), on capital gains, and on property have not been adopted as central components of the reform agenda. Thus, in 2014 the government delayed for three more years a much-anticipated capital gains tax that it had agreed to implement as part of its deal with the IMF.

As a result of these policies and the loans to which these policies are tied, Egypt risks remaining chronically indebted for years to come. According to the IMF, Egypt’s total public debt has increased from 70 percent of GDP in 2009/10 to 94.6 percent in 2015/16. The IMF loan will be the largest in the history of the Middle East and North Africa.

While Egypt is expected to unlock up to $9 billion in additional funding from sources like the World Bank and the African Development Bank, these loans risk raising Egypt’s external debts to levels unseen since the country’s external debt crisis in the late 1980s.

Reversing a Mubarak-era trend of borrowing mostly from domestic sources, the Egyptian government has relied more heavily on external funding in the last few years. Today, Egypt’s external debt is over $55 billion; as a percentage of GDP, external debt currently stands at an estimated 14 percent, and that is expected to double by 2019. While this is still less severe than Egypt’s debt crisis in the 1980s, raising its external debt servicing obligations in the coming years will likely mean that the government will have fewer funds available for social expenditures through which it could try to strengthen its popular support base.

A Disaffected Middle Class

To find examples of relatively successful social coalition building in Egypt, we need look no further than the country’s recent past. After 1952, when Egypt attained full independence, state elites cemented their authority by creating a strong link between economic policy and political legitimacy. Colonel Gamal Abdel Nasser and his cohorts built an authoritarian government founded on an alliance between the military and state bureaucrats, with support from wide segments of the agrarian middle class and organized labor. Two pillars were key to sustaining this coalition. First, the government provided guarantees of public employment, so much so that by the 1960s a vast segment of urban middle class state employees had become this coalition. First, the government provided guarantees of public employment, so much so that by the 1960s a vast segment of urban middle class state employees had become the economic backbone of the government. Second, it relied on a system of price controls in the form of subsidies, rent ceilings, and the like that provided for a relatively high degree of social mobility.

For over two decades, these policies helped to underpin a durable political and social order that enlisted consent from sizeable segments of Egyptian society. But this order has been slowly unraveling since the 1970s, with successive waves of free-market reforms creating what one might call “dominance without hegemony,” a situation in which coercion has generally outweighed consent/co-optation in the functioning of state power. Egypt’s model of free-market growth, especially after the 1990s, failed to generate sufficient trickle-down effects that could expand its benefits as widely as possible. By 2011, large numbers of Egyptians had turned against this particular brand of free-market capitalism.
The popular revolt that brought down Mubarak's government was fueled, at least in part, by social and economic grievances growing out of the unfair distribution of the wealth that had existed in the preceding period. Despite some popular representations after 2013 of Sisi as Nasser redux, the two governments in fact had little in common. And indeed, the re-creation of any form of neo-Nasserism in Egypt is highly unlikely, for a number of reasons. For one thing, the Egyptian state today has a different fiscal structure than it did sixty years ago. It has less access to windfalls (such as from nationalization and land expropriation) with which to undertake the kinds of social spending that Nasser instituted. Although Egypt became a net exporter of petroleum (and later natural gas) in the 1970s, those sources of rent have diminished in recent years, as the country's domestic energy consumption has outpaced its exports.12

Since taking power in 2013, Sisi has overseen a cash-strapped state that has survived in large measure owing to infusions of tens of billions of dollars from the Arab Gulf states. Moreover, the global economic context is different than it was in the 1950s and 60s. The world economy is more financialized and integrated, and international financial institutions no longer encourage experiments in state-led development of the sort that prevailed in the three decades after World War II.

Assessing the Sisi government's ability to forge a social alliance in this context requires looking at how it deals with both the formal and informal sectors of Egypt's economy. The informal economy includes a vast range of activities that the World Bank estimates to account for 40 percent of employment in the country.13 This includes millions of people who earn a living by making use of resources they do not legally possess—for example, by squatting on state land or using public space to engage in street vending—and who are not fully monitored by the government. The mechanisms for bringing about consent to political rule within this segment of society often look different than those that operate in the formal economy. Anthropologist Partha Chatterjee uses the term “political society” to describe those segments of the population whose “habitation or livelihood verges on the margins of legality.”14 Governments tend to deal with such populations not by applying general rules and principles (such as property rights), but rather by means of exceptional practices that take place in the context of a whole set of everyday negotiations with state officials. Imposing control over the informal sector, which has grown with the rolling back of the Egyptian welfare state since the 1970s, has required the expansion of the police force and the development of new kinds of monitoring and surveillance in different areas of the informal economy.15

As it phases out its existing subsidies for fuel, the Egyptian government over the past few years has also been experimenting with new mechanisms, like direct cash transfers to vulnerable groups, to help mitigate the effects of urban poverty. Governments in other countries with large urban populations that live and work outside of the formal economy have tried similar experiments, oftentimes as a strategy to reverse the effects of rural displacement that has created large urban populations who have lost access to their land without gaining access to formal wage employment.16 Such programs might benefit segments of the informal economy in Egypt, but they remain in their infancy.

More conventional mechanisms for building a social contract, such as taxation, public employment, and social services, are usually employed in the formal economy and target a variety of social groups that constitute what is often called the “middle class.” And the absence of a new social contract in Egypt has recently prompted anxieties in the press about the condition of Egypt’s middle class: its shrinking size over the past decades, and its place in Sisi's future economic order. According to one recent estimate, the middle class in Egypt constituted roughly 44 percent of the population in 2011 when the uprising against Hosni Mubarak's government began, the majority concentrated in urban areas.17 If the “middle class” was expanded to include those whose income hovers just above the poverty line of $2 a day, then the same estimate would assess the size of the middle class as anywhere between 60 and 80 percent of the population. This vast segment of Egyptian society is composed of at least four major subgroups that belong to different circuits of capital accumulation: a private sector middle class, a public sector middle class, a remittance middle class, and a military middle class. Each of these subgroups is internally variegated, and they are not mutually exclusive. In general, however, each of these groups has its own set of interests and stands to fare differently in the present context.

The current economic crisis has taken a harsher toll on the private sector middle class than at any time since the 2011 uprising. This group includes people ranging from businessmen and small and medium entrepreneurs to employees in multinational corporations, all of whom will be affected to some extent by the current policies. The wealthier segments of this group were among the main beneficiaries of economic liberalization in the 1990s, but by the mid-2000s they had begun to feel squeezed by the rise of a new economic oligarchy that was closely connected to the government.18 Over the last ten years, many became
increasingly frustrated that a small group of politically connected capitalists was reaping most of the benefits of private sector growth without creating enough jobs to absorb a demographic youth bulge.\(^10\)

Today, many in this group are being hurt by Egypt’s currency crisis. Their savings in EGP have lost value as the Egyptian pound has plummeted, so some have scrambled to move their savings into more stable assets, like real estate and gold. The cost of education at elite private universities is expected to rise steeply and has already triggered a string of student protests.\(^20\) Those who operate their own businesses have been unable to purchase all their supplies because of the dollar shortage.\(^21\) And the consumption patterns of those at the higher end of this group, which depend to a large extent on imported luxury goods, have been interrupted, first by government controls that have limited what goods can be imported into Egypt and then by inflation that has resulted from the Central Bank of Egypt’s decision to float the Egyptian pound.

Relying on the continued support of public sector employees and civil servants, as previous Egyptian governments have done, does not appear to be a viable long-term option, either. There are an estimated six million public employees in Egypt, and their salaries consume about one-quarter of state expenditures. Though the public sector has traditionally been treated as an important source of political support for every president since Nasser, over the past two decades, strikes in the public sector have proliferated in the face of both privatization and deteriorating work conditions, and they constituted over half of labor mobilizations in Egypt during this period.\(^22\) As the government continues to implement the IMF-supported economic program, which includes plans to optimize the public sector wage bill, this group is likely to witness a deterioration in its economic conditions.

An attempt last year to introduce a civil service law that would reduce the size of the public sector was ultimately rejected by the Egyptian parliament to avoid a political conflict between the state and its support base; but with its budget deficit growing in recent years, the government will likely find it hard to continue sustaining this public sector wage bill. As political economist Amr Adly has recently argued, “[Egypt’s] current economic crisis deprives the regime of the financial and economic resources needed to sustain a solid social base among public sector employees, and hence hinders the [Sisi government’s] consolidation of authoritarian rule.”\(^23\)

The remittance middle class—those Egyptians who earn an income abroad and send money back to Egypt—is largely tied to the Arab Gulf states, especially Saudi Arabia. Egypt is the top remittance receiver in the Middle East and North Africa, with several million people living abroad. Remittances have dropped recently owing to the global economic downturn, low oil prices, and expectations of further currency devaluation in Egypt.\(^24\) Today, most of the $20 billion (roughly 5-6 percent of GDP) that Egyptians remit annually finds its way to Egypt through unofficial channels.\(^25\) The government has shown an interest in redirecting some of these funds through the formal banking system to help ease its dollar shortage; in February, it launched a scheme to encourage expats to invest their dollar savings in special certificates issued by the country’s largest state-owned banks.\(^26\) Tapping into remittance flows can be an important source of foreign exchange amidst the existing currency crisis; but in the end, remittance earners cannot make up a central part of any social coalition, as the livelihoods of this group depend on earnings from outside of Egypt. And the government has little fiscal leverage in improving remittance earners’ income and standards of living.

The primary beneficiaries of the new government have been those connected to the political and business activities of the Egyptian army and security apparatus, including police and army officers who have received generous raises in their salaries and benefits since 2013, along with thousands of retired senior officers who have been placed in charge of government ministries and agencies, local governing bodies, and state-owned companies. (Yezid Sayigh has called the latter group “the officers’ republic.”)\(^27\) Under Sisi, there has been a steady militarization of the civilian bureaucracy that oversees key areas of economic policy. For example, in September 2016, a new retired army general was appointed to take over the Supply Ministry, which controls the distribution of subsidized food, after corruption allegations against the former minister over wheat procurement.\(^28\)

Also included in this group of beneficiaries of the Sisi government are the many companies tied to the army that have secured contracts for a variety of economic projects, ranging from housing to infrastructural mega-projects to real estate management, as well as private education and the provision of private security.\(^29\) As Shana Marshall has argued, since 2013 the Egyptian Armed Forces have dramatically expanded their economic role to the point of becoming “the primary gatekeeper for the Egyptian economy.”\(^30\) With several of these projects financed in whole or in part by investments from the Arab Gulf states, there appears to be a growing nexus of Gulf capital and the Egyptian military that is overseeing many of the major development projects that are either anticipated or now underway in Egypt.
A New Military Society?

The challenges of building a new social coalition in Egypt did not originate with Sisi, but rather are the result of structural problems that began with the unraveling of the Nasserist coalition four decades ago. Sisi’s government is still in formation, and its long-term base of support is yet to be consolidated. While Sisi has been likened to his predecessors—namely, Nasser and Hosni Mubarak—his government is different from theirs in several key respects.

As has been argued above, Sisi’s government does not possess the ability, the resources, or the appropriate global context to create a form of neo-Nasserist rule. Nor does his government represent a straightforward continuation of Mubarak-style rule. Many elements of the Sisi government’s economic policies—in particular, attempting to boost Egypt’s economic performance by attracting foreign investment—may resemble Mubarak policies, but there is no clear plan for more inclusive growth. And other key elements that underpinned Mubarak’s rule, including the National Democratic Party (which was dissolved in April 2011) and the politically connected capitalists associated with his son, Gamal Mubarak, are no longer central to the functioning of political power in Egypt. Instead, Sisi is overseeing the creation of a government in which the military is at the center of the system of power: Under him, the army is playing a greater role in the state bureaucracy, in domestic security, and in overseeing major economic development projects than it had been prior to 2011. Growing an alliance of the military middle class and select private business interests will continue this trend of militarizing both the government and its social base.

In the absence of a strong welfare state that could underpin a new kind of benevolent authoritarianism, another option would be to open the political system in ways that would allow a wider group of stakeholders—opposition parties, trade unions, civil society—to have a say in political and economic decision making, thereby giving more legitimacy to government policies going forward. But the Sisi government so far appears uninterested in exploring this possibility.

Conclusion

This Brief has argued that under current economic conditions, the Sisi government faces serious challenges in using economic policy as a means of building a durable social coalition that can strengthen its political authority. The government faces fiscal constraints that hamper its ability to maintain or expand the welfare functions of the state; large sections of Egypt’s variegated middle class will suffer economically, at least in the short term, under the current austerity policies; and those policies benefiting people in the middle and upper classes who are connected to the Egyptian military and its economic activities will accelerate tendencies toward the militarization of the government and its social base.

Without a new social bargain, the Sisi government will likely continue to establish its authority by relying increasingly on coercion rather than economic co-optation. In the absence of a broad social contract that could serve to entrench its political legitimacy, the Sisi government can continue to invest in the military and its connected business interests as its base of support. Alternatively, it could choose to open up politically and allow for the creation of a more pluralistic political space, wherein different actors and factions in Egyptian society could articulate their grievances and take part in the political and economic decision-making process. Otherwise, the combination of political repression and economic turmoil might present serious challenges for Sisi’s government in the future.

Endnotes

9. International Monetary Fund, Arab Republic of Egypt, p. 47.


18 Ishac Diwan, “Understanding Revolution in the Middle East: The Central Role of the Middle Class,” Middle East Development Journal 5, no. 1, March 2013, p. 10.

19 Hamouda Chekir and Ishac Diwan, “Crony Capitalism in Egypt,” Journal of Globalization and Development (2015); Elena Ianchovichina, Lili Mottaghi, and Shantanayan Devarajan, Inequality, Uprisings, and Conflict in the Arab World, Middle East and North Africa Economic Monitor (Washington, D.C: World Bank, October 2015). Many politically connected business tycoons from the late Mubarak period faced corruption charges after the 2011 uprising and were subsequently imprisoned or left the country. A number of them have since managed to use their wealth to buy immunity from prosecution in a series of well-publicized reconciliation deals. See Bel Trew and Osama Diab, “The Crooks Return to Cairo,” Foreign Policy, February 7, 2014.


21 Salma Shukrallah, “High Inflation Takes Its Toll on Egypt’s Shrinking Middle Class,” Ahram Online, October 23, 2016.


25 In 2015, the former governor of the Central Bank of Egypt, Hisham Ramez, estimated that 90 percent of remittances return to Egypt through the black market. See “To boost foreign reserves, campaign tells expats to transfer money into Egyptian banks,” Mada Masr, November 9, 2015.


27 Yezid Sayigh, “Above the State: The Officers’ Republic in Egypt,” Carnegie Middle East Center, August 1, 2012.


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