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SOMMAIRE

Articles

INDUSTRIAL POLICIES IN THE A.R.E.(*)

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I — The role of industrial policies in implementing development plans.

1 — In more than one respect the industrialization process in the A.R.E. which received a particularly strong impetus in the last decade, will be intensified in the future, and development patterns, different from those previously followed, may have to be worked out. Discussion of the requisites and probable implications attaching to those changes in industrialization patterns requires a thorough study of the lessons and experiences of past industrialization policies.

2 — Equally important is to view industrial development in the broader perspective of the social and cultural change that is concomitant with economic development. Industrial development is not simply the expansion of production capacity and of output of manufactured goods. Industrial development, in the strict sense of the term, is the means to building an «industrial society» characterized by the features commonly attributed to it : a rational organization of production, both in manufacturing and in other sectors of the economy, which in turn implies the intensive application of science and technology throughout the whole field of production of goods and services; an equally extensive participation of the population in consumption, so that the benefits of technical progress reach all social groups; and

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an «open» social stratification system, supported by modern methods of education capable of forming the necessary talent and equipping the whole population to understand and take part in the industrialization process.(1)

3 — The decision, taken in 1955(2) and embodied in the National Charter in 1962 — to organise systematic efforts aimed at ensuring the attainment of minimum growth targets for income, and to use planning as basic means to that end reflected a conscious awareness of that «total» treatment of development, sectoral or in aggregate. Before then provisions aimed at encouraging industrial growth through indirect incentives existed since 1930, the time when the foundation of modern industry in Egypt was actually laid, and, by the time the middle of this present century was giving way, a multiplicity of legal provisions and systems of what may very loosely be called industrial policy was already in existence.

4 — Two landmarks in the history of industrial development in the A.R.E. were the establishing of a separate Ministry of Industry in 1956 and the Industrial Organization Law of 1958. The First Five Years' Industrialization Programme—prepared in 1957 and later incorporated with the general plan of 1960-65 — was another important step towards the consolidation of industrial policy in this early period.

5 — The process of economic development in the A.R.E. was accompanied with significant organizational changes of a far reaching nature. With the rapid socialisation of the economy(3) a major portion of the industrial sector was transformed into state-owned enterprises. Consequently, it has been necessary to evolve new economic management techniques in order to improve the overall efficiency of the industrial sector. The evolution of the public sector in the industrial field, both in structural organization and managerial efficiency is a salient feature of Egyptian industrial policy in the nineteen sixties, while private-owned enterprises continue to play an important role in industrial activity. Industrial production during the sixties achieved an annual rate of growth — 10%(4) not yet matched by any other developing country; the corresponding rate for 1956-60 was slightly lower(5). The general index of industrial production rose from 100 in 1959 to 276 in 1966.

6 — Industrial development in the A.R.E. — during the period covered by this paper, 1957 to 1968 — was carried in three stages : the First Industrialization Programme, 1957—June 1960; the First Five Years Plan, 1960/61 — 1964/65; and the Second Five Years Plan, 1965/66 — 1969/70. A list of projects, classified by major branches of industry, embodied in these three stages appears in table 2. The total cost[6] of these projects amounted to just under two and a half billion Egyptian Pounds. Gross fixed capital formation in industry during the period 1958-1967/68 was L.E. 772 million (table 3), against a total investment budget of over L.E. 2.5 billion. The weight given to industry is borne by the fact that investments in industry accounted for more than one-quarter of total investments throughout the period; in 1967/68 they stood — as indeed they had in the base year of the general plan — at 28.8 per cent. The sectoral distribution of gross domestic product was consequently altered in favour of industry, and the contribution of industrial income to gross domestic product rose from 19.9 to 22.6 per cent between 1959/60 and 1967/68.

7 — Industrial policy during this period, as formulated with the first industrialization programme, aimed at :

i) self-sufficiency through import substitution;
ii) expansion of industries with export market orientation;
iii) obtaining a balance between the development of basic[7] and consumers industries; and
iv) achieving an equitable regional distribution of industry in the country.

8 — These policy considerations were observed through later stages of industrial development. They were re-shaped and emphasised in the National Charter of 1962 with a few additions :

i) Heavy industries should have prior importance, without however jeopardizing consumers' industries expansion;
ii) Consumers' industries, with their great capacity for man-power absorption, also satisfy local consumption needs and provide in the immediate future a more attainable opportunity of reaching neighbouring export markets;

iii) Industrialization of the rural countryside reaches new dimensions for employment and accelerates the transfer to an industrial society.

9 — The list of criteria that give a project a certain degree of priority on the plan was rather lengthy, but not always very clear. The list of the first industrialization programme enumerated, without order of preference, such conditions as : contribution to national income, local and foreign finance needs, rate of profit, increase in productive capacity of capital goods, contribution to the supply of consumption goods, savings of foreign exchange, the length of the gestation period, absorption of locally available factors of production such as raw materials and non-skilled labour, and national strategy. It is of particular significance that import substitution and export promotion do not appear explicitly on the list, although they do not fail to leave their finger prints wide and clear. The second industrialization programme was more decisive in coming out in favour of export promotion industries as a target, and in giving top priority to the non-defined-strategic factor and to «important basic industries. Two totally new conditions were also laid down : inter-industrial complementarity, and fundamental industrial location considerations.

10 — Egyptian industrial policy — as briefly outlined in the preceding paragraphs — has produced obvious achievements. In terms of gross production[8], industry has come to account for more than 40 per cent; it employs in 1967 68 no less than 11 per cent of the active population, and pays total industrial wages of 16 per cent on the average of the national wages and salaries bill (table 4). Domestic production now satisfies local demand for durable and non-durable consumer manufactures, and an appreciable contribution is now made to total supplies of intermediate products, building materials and production machinery and equipment. Considerable strides have also been made in the development of basic industries such as iron and steel chemicals and petrochemicals, machinery and transport equipment. Tables 5 - 6 give production figures for both the public and the private sector in the major branches of industry over the last few years.

11 — The growth of the various industries did not evolve evenly. Of the main manufacturing industries, the largest per-

centage gain in terms of production was scored by the chemical industry which has more than tripled from 1960 to 1968, thereby raising its share in total manufacturing production from 8.8 per cent to about 13 per cent in 1968. Engineering and electrical industries output also showed a remarkable growth over the sixties, rising in 1968 to two and a half times what it was in 1960. Its share in total manufacturing production increased from 14.5 to 17.2 per cent over the period. On the other hand, the cotton industry which accounted for about 41 per cent of manufacturing in 1960 has not shown enough resilience compared with the relatively younger industries and, consequently, its share dropped to under 36 per cent of manufacturing output in 1968(9).

12 — Table 6 also gives tentative figures of the share of each of the public and the private sector in the output of manufacturing industry. The socialisation measures, referred to above, have, with no doubt, reduced the contribution of the private sector. Nevertheless, the role played by it in industrial activity is still an important one. The following summary table reflects this.

Percentage share of the private sector in manufacturing industry

Sector	63/64	64/65	65/66	66/67	67/68
Spinning & Weaving	27.4	29.3	30.8	27.7	23.9
Foodstuffs	18.5	17.7	20.5	23.6	25.1
Chemicals	15.6	14.7	14.2	13.4	12.7
Metals	4.2	17.9	14.9	12.6	14.7
Engineering	22.0	22.3	23.8	24.1	25.6
Building	19.9	20.7	19.4	17.8	15.5
Wood	85.0	86.0	84.0	86.0	87.0

Source : Central Agency for Public Mobilisation and Statistics, quoted with minor changes – from the National Bank of Egypt : Economic Bulletin No. 4, 1969, p. 336.

13 — The increasing degree of industrial diversification noted above, which was brought about as a result of the new industrial policy of the sixties was not confined to the home market; it also reached and very fundamentally altered the

pattern of Egyptian exports. The percentage share of industrial products in total exports increased from 18.1 per cent in 1959 60 to 31.2 per cent in 1967 68 (table 7). At the same time while a relatively high rate of growth in exports of manufactures of 14 per cent per annum has been recorded for that period, experience of other developing countries [10] points to greater possibilities in that particular field. The fact that industrial growth has been of a type primarily based on the progressive incorporation of new lines of production, with the inference that specialization has not been a clearly-defined objective of industrialization policy, may account for that rate of performance. Whether a case exists for or against specialization in industry, the writer believes that with regard to exports there is much to be said in favour of specialization.

II — Description of the different industrial policies and measures used

1 — Protecting industry from foreign competition.

1 — It is hardly possible to quote from the history of economic thought a more commonly popular and widely used, and probably misused, notion as the «infant industry argument». Developing countries, and Egypt is no exception, have found it necessary to provide some degree of protection from foreign competition so as to permit the emergence of industrial activities that can build up in to a manufacturing sector. Important as it may be, no evaluation of the degree of protection over the years will be attempted. A study of the particular features of the measures and machinery of protection which played part in shaping the present structure of Egyptian industry seems more fruitful. In common with many other developing countries at similar stages of industrial development [11], some lines of action of certain basic instruments of industrial policy may have been determined by considerations and aims extraneous to industry itself. The protectionist policy followed by the A.R.E. may therefore have resulted from action which, either in addition to or instead of protectionism as such, have had other purposes, such as to increase public revenue or, in more recent years, to reduce balance of payments deficits.

2 — Industrial policy in the field of tariff protection passed through a number of stages. According to the predominant aim at each stage specific instruments have been emphasised while others neglected or played down. With the evolution of Egyptian industry over the past decades, the various instruments of protection and control have necessarily alternated or combined through most of these stages.

3 — The first stage began in 1930 when a new tariff system was adopted. It emphasised «the promotion of industrial production by providing a reasonable degree of protection especially for industries using local raw materials». Accordingly, a 15% ad-valorem duty on finished goods for average income consumers was imposed, against a 25 per cent and 30 per cent rate on luxury and extra-luxury goods respectively. On the other hand, the ad-valorem duty was reduced to 4 to 6 percent on imports of industrial raw materials and fuel, and to 8 per cent on imports of semi-manufactured goods used for local production.

4 — But between 1930 and 1950, the process of industrialisation was relatively slow, and the structure of industry was basically characterised by the concentration on a small number of industries processing agricultural products, especially cotton. Only Bank Misr and its affiliated companies took the initiative in establishing large-scale industries. The reduction of external supplies during the Second World War strengthened these «infant» industries and encouraged the introduction of many new lines of industrial activity. With the restoration after the «War» of former foreign trade contacts these industries began to feel the onus of severe competition from abroad. The Egyptian Government was therefore obliged to raise, in 1948, duties on a number of imported manufactures to protect local industrial production. Further, imported raw materials for industry gained more preferential treatment in the form of lower import duties, while imported machinery and parts were exempted to encourage Egyptian industries carry out deferred plans for replacement and modernisation of fixed capital.

5 — The change of 1948 had also other objectives of more general development nature, and of financial implications. The

reduction or complete abolishment of duties on imported raw materials and machinery was extended to cover fields of economic activity other than industry. Import duties on tobacco, liquor, tea, coffee, etc... aimed on the other hand at increasing public revenue.

6 — Another stage of industrial development in Egypt was marked by the setting-up of the National Production Council in 1952. The «Council» wasted no time in coming all and out in favour of more organized industrial development policy. Meanwhile preliminary studies led to a series of stop-gap enactments :

i) Imported raw materials for industry were finally exempted from customs duty;

ii) The drawback of customs duties and excise taxes on exported goods was regulated;

iii) Priority was given to the importation of machinery and equipment required for local industry.

For example, the import duty on natural rubber, previously fixed at L.E. 8.70 per ton was abolished while the ad-valorem duty was reduced from 3 to 1 per cent to encourage the — then-new tyre industry. Similarly, oilseed used in the manufacture of soap was exempt from import duties and the ad-valorem duty reduced from 8 to 1 per cent. To encourage the new industry of electric wires, the import duty on copper was abolished and the ad-valorem duty reduced from 8 to 3 per cent. To encourage the assembly of cars in Egypt, the additional ad-valorem duty on vehicles imported on loose parts, to be mounted up in a warehouse under the control of the Customs Administration, were reduced from 30 to 20 per cent. Moreover, import and ad-valorem duties on passenger cars, whether assembled or detached were reduced. Similar changes covered some other articles used in industry such as asbestos, aluminium tubes and pipes, etc.

7 — In the other direction, import duty on batteries was doubled and became L.E. 4 per 100 kg as a protective measure, while the ad-valorem duty on the detached parts of batteries was reduced from 8 to 3 per cent. Other protective measures included imposing a new additional ad-valorem duty on artificial

alimentary fats of 20 per cent and the doubling of the import duty on starch which became L.E. 1.50 per 100 kg. Import duties were also increased on some articles of which local production had become promising. They were raised from L.E. 2.0 to 2.50 per thousand on razor blades, and doubled on matches. Additional ad-valorem duties ranging between 40 and 50 per cent were imposed on silk, rayon and cotton fabrics mixed with other textile material[12].

8 — The above brief account of the history of the tariff rate and tariff policy in the A.R.E. leads to one obvious conclusion : the previous thirty years' amendments of the tariff rate rendered it a very complicated system. With the introduction of industrial planning in 1957 and comprehensive development planning in 1960, a completely new tariff system was required. This was imposed as from January 1st, 1962, and it had two principal features : it applies a unified proportional rate, and it treats imports in three groups of different industrialization process, with special reference to the capacity of local production of corresponding industries. These three groups of imports are raw materials, semi-manufactures, and finished goods. Finished goods produced locally received a proportional rate varying between 35 per cent for «essentials» and 100 per cent for «luxuries»; where no local production exists the rate is down to 10 and 15 per cent respectively. Semi-manufactured imports, for which local production capable of satisfying industrial needs exists, have a rate of 25 per cent for essentials and 50 per cent for luxuries; these are reduced to 5 and 10 per cent in case they are not locally produced. Finally a rate of 15 per cent or 35 per cent — as the case may be — is imposed on imported raw materials which can be, or are, produced locally; otherwise the rate is reduced to 1 per cent or 5 per cent respectively. Imports of coal were totally exempted because of the requirements of the newly established iron and steel industry[13].

9 — Tariff policy continued—through the nineteen sixties— to undergo changes, which in some instances were drastic. Revisions of policy decisions were not infrequent. Raising tariff rates on household appliances and private cars to 200 and 250 per cent, only to be reduced later are cases in point. Public revenue considerations may have played a role in the

later shift of policy. More important, however, is the fact that as the public sector is now the sole importer in the ARE, the tariff structure plays at present a very minor role in matters of broad economic policy.

10 — As was mentioned before, the protectionist policy, outlined above, was the result of a mixture of measures and instruments that were governed both by the strictly protectionist aim and by the need to obtain more revenue or to improve the balance of payments. Its real influence however was to create a climate of excessive protection for domestic industry on such a large scale that there was no pressure on the newly established branches of industry to improve productivity and efficiency.

11 — Furthermore, import substitution with the attraction it offers by way of minimum technical and capital needs was adopted as an industrialization strategy, at least in the first and second industrialization programmes (1957 - 1965), with the resultant sacrifice of productive efficiency and jeopardizing the establishment of a rational industrial base. Industry was necessarily directed therefore towards production lines related to the demand for final consumer goods, even though only the final processing stages were sometimes covered, at least in the initial period. It was not until the introduction of the third industrialization programme that an intensive type of growth in industry based on a more critical selection of alternative forms of industrial development was favoured to encourage increasing specialization and provide the foundation for a more self-supporting type of industrialization that would satisfy one of the most demanding requirements of development, namely an ever increasing volume of export manufactures.

2 — Financing industrial development

1 — In a broad sense, the problem of financing industrial development must be tackled as part of the more general problem of financing economic development, in which aggregate investment resources are taken into account and the share of manufacturing industry is weighed against those of the other sectors of the economy.

2 — Sources of finance of the industrial sector are either endogeneous to the sector — in the form of depreciation reserves and profit re-investment — or exogeneous. These in turn are either local funds through the stock market, and the banking system, or foreign, official or private or through international agencies. Foreign funds can — in turn — be either in the form of loans and credit facilities, or direct capital participation. A comprehensive coverage of all these sources of finance would be outside the prescribed scope of this paper; besides the meagre data and statistics available on the subject precludes any attempt of this scope.

3 — According to what is available of information on investments in industry during the 1950's, registered capital of industrial companies with head-offices in the A.R.E. — taken as a crude indicator of the development of industrial investments— increased from L.E. 46 million at the end of 1955 to L.E. 101 million at the end of 1959[14]. Net new investments during the 1950's amounted to L.E. 90 million out of which investments on expansion alone were L.E. 21 million. The bulk of these investments were in joint-stock companies (Table 8). The general trend over the period is also quite interesting : from L.E. 2 million in 1951 net new investments in industry increased to L.E. 19 million in 1959. At the same time, those for commerce and trade were at best stagnant, and while they amounted to more than three times as much as industrial investments in 1951, they went down in 1959 to as low as 27 per cent, (table 9).

4 — Since 1959, the Government has been the main founder of new industrial projects, which came under the First Five Years' Industrialisation Programme of 1957 and later embodied in the Development Plan of 1960 - 69. Since the inception of that «Programme» and until the end of June 1970 public investments in industry totalled L.E. 945.3 million, i.e. more than ten times as much what was invested in industry during the corresponding period of the nineteen fifties.

5 — The contribution of the Government to industrial finance was not, however, confined to the participation in new enterprises. The analysis of the Public Budget — taken up in a later section of this paper — will show that about 20 per cent of total current public expenditure is devoted to industry.

6 — To finance the foreign currency needs of industrial development the Government concluded a number of economic and technical agreements with foreign countries, particularly with the Soviet Union. In January 1958 a loan of 700 million roubles was contracted to finance imports of the first - later on also the second — industrialization programme; in September 1964 another loan of 300 million roubles was agreed upon for the benefit of the third industrialization programme. Countries like the Federal Republic of Germany, Japan, Spain, France, the Netherlands, the Democratic Republic of Germany, China, and others also provided loans and credit facilities, which totalled during the whole period some L.E. 370 million.

7 — The part played by the banking system in the financing of industry is different both in character and in magnitude. Incentives in this field may be derived both from general provisions governing the allocation of bank credit and from the establishment of public bodies — such as industrial banks — for the special purpose of offering industry more credit on better terms.

8 — In order to assess the share of total bank credit that has fallen to manufacturing industry, the over-all contribution that bank credit resources have made to the economic development of Egypt as a whole must first be borne in mind. During the period 1960 - 1970 the percentage relations between bank credit and the gross national product depicted no definite upward trend, and fluctuated narrowly around 20 per cent. Within the general framework of this almost stable ratio of bank credit, the position with regard to credit facilities specifically channelled towards the industrial sector shows a steady rising trend from 37 per cent of total bank credit at the end of 1960 to 46 per cent at the end of 1966. For seasonality implications the June figures are also shown in Table 10; they offer almost the same result. An ever increasing share of commercial bank credit has been directed to finance industrial development.

9 — Now, has the rate of increase of industrial bank credit been in line with the fast rise in investments and the rapid expansion of production in the industrial sector ? The following table shows that indices of industrial bank credit have always been above those for industrial production. In other words, current industrial production was getting an ever increasing

volume, both relatively and absolutely, of bank credit to finance its operations.

Indices of gross investments, production and bank credit in industry

	Investment	Production	Bank credit
1959/60	100	100	100
60/61	138	106	110
61/62	102	110	128
62/63	165	126	154
63/64	214	138	147
64/65	204	149	167
65/66	206	163	189
66/67	200	169	197

10 — Not less relevant are the terms on which bank credit is generally offered. Long-term credit has traditionally constituted a low proportion of total commercial bank credit. The Industrial Bank was established in 1948, and commenced operations in October 1949 to supply medium — and long-term loans to industry. Its statutory purpose was to «develop Egyptian industry and handle banking business pertaining to it, and, in specific, to :

i) Participate in establishing and assisting Egyptian industrial establishments;

ii) Provide Egyptian industry with raw materials or basic equipment;

iii) Lend on short-term for a maximum of twelve months, on medium-term for no more than ten years, and on long-term for no more than twenty years for the purpose of setting-up new industries or new branches thereof».

1 — The Industrial Bank underwent since it was established several changes both in its lending policy and lending operations, while at the same time, its lending resources were tremendously

increased. In successive steps, the upper limit set for the Bank to borrow from the Government, or be guaranteed by it, was raised to reach L.E. 10 million. The Bank's lending operations were necessarily very modest in the early phase of its evolution when up to the end of 1953 its total loans to industry had not reached L.E. 2 million. During this period, large loans of L.E. 50,000 or more took up nearly half its industrial credit, while short-term loans of up to one year constituted also just under 50 per cent of the total. This trend of favouring short-term loans continued until 1965 when these amounted to over 75 per cent, (Table 11). Before that time, however, as far back as 1958 — a large number of enterprises were permitted to borrow short for one year renewable up to ten years, which meant that a large part of these loans in fact belonged to the category of long-term loans. Table 12 gives the de facto distribution of annual (paid out) bank loans. Long-term loans have obviously been getting the lion's share of the Industrial Bank activity during the nineteen sixties. But if the Bank had shifted to «long-term» loans, it had also been going «large» ever since it began operations. Large loans of L.E. 100,000 or more have nearly always accounted for over 70 per cent. One important exception is the year 1967-68, when the percentage share of this group of loans was markedly reduced. But this year seems to be a year of exceptions. Several noticeable shifts took place which are worth mentioning : a change in favour of medium-term, medium-size, and private sector loans (tables 12, 13). The change may be a reflection of the new policy of the Government of lending more support to the private sector (see section III below), which would be expected to borrow smaller size loans for a relatively shorter period. Finally, table 13 shows also that the non-traditional branches of industry, such as chemicals and engineering products, were getting increasing assistance from the «Bank» in place of the traditional industry — namely spinning and weaving.

12 — The Industrial Bank played another role that was of prime importance during the period preceding the era of industrialization by planning. The Bank participated in a number of industrial establishments among which were the Organic Fertilisers, Iron and Steel, Ceramic and Porcelain, Chemical Industries (KIMA), Egyptian Engineering and Car Co., and several others.

13 — Financing of small business is one of the major problems facing small enterprises in the field of industry. This is mainly due to the fact that normal credit terms are often too burdensome for them because of high rate of interest and commissions charged, and because of their inability to provide the security (collateral) necessary. The Central Bank of Egypt took a decision early in 1968 to exempt loans of craftsmen and small industrialists from the statutory minimum of 6 per cent interest rate, and the Industrial Bank was therefore able to lend to this category at a rate of interest as relatively low as 3.5 per cent. Furthermore, the standing commission of $^{1}/_{4}$ per cent on banking services was also waived for them(17). Quantitatively, however, the volume of loans that the Industrial Bank extended to small industries was not very impressive.

14 — In 1956 a fund for the promotion of rural industries was established with the objective of offering grants non-repayable to some rural industries as well as loans to industrial corporations, but the project failed because of its meagre resources. Again, in 1961, the «Co-operative Credit Fund» was established, and affiliated to the «General Egyptian Organization for Co-operative Production and Small Industries» to exercise banking activities related to producers cooperatives. But the «Fund» was again quickly exhausted.

15 — The National Bank of Egypt has also extended assistance during the sixties to finance small industries. A sum of L.E. 100,000 was earmarked to advance loans to small industrialists and artisans on special terms deemed compatible with the nature of the business of the small industries. Moreover, loan charges were reduced and easy repayment terms laid down to avoid over-burdening the small borrowers. This was termed the «Small Loans Scheme». It was applied to craftsmen defined as persons undertaking industrial production where labour rather than capital was the main factor of production. It also applies to small factories with capital not exceeding L.E. 5000. Small loans are advanced for both fixed and working capital. The volume of operations of the National Bank of Egypt according to this scheme is shown in Table 14. The average volume of loans, which is around L.E. 500, leads to the conclusion that the Bank's policy of extending assistance to small industries has again been quite conservative.

3 — **Fiscal policy and industrial investment**

1 — In addition to the general incentives deriving from protectionist policy and from other measures designed to encourage the installation and expansion of industry, as outlined in the preceding sections, direct industrial investment by the State has gradually taken the lead in promoting industrial development. The Ministry of Industry was thus established in July 1956 with the main objective of «drawing-up a well-defined industrialization plan and supervising its execution». Further, in 1958 a law was passed for the purpose of «regulating and encouraging» industry[10], which law stipulates that :

i) No industrial establishment shall be set-up, expanded or have its production line or location modified without the prior consent of the Minister of Industry, and with due regard to the national economic needs, requirements of local consumption and exports, and within the economic and social plans of the State;

ii) Directors of industrial establishments are to provide the Ministry with all data and information that it may require regarding their field of activity;

iii) No industrial establishment active in basic industries or enjoying a monopoly shall cease production or reduce it beyond the set limits without prior reference to the Ministry;

iv) All existing industrial establishments — falling into one of the categories designated by the Minister — shall apply for registration at the Ministry within three months.

2 — The second element of organizational control over industry — embodied in the above-mentioned law — appears in the powers given to the Ministry to fix uniform standards to be applied in production, and to define the specifications of products and raw materials employed. An Egyptian product is defined as the product in which the proportion of the value added by industry in Egypt is not less than 25 per cent of final cost. Further, to encourage industry, the Ministry shall provide industrialists with necessary information, offer grants for research work, and take part in creating training centres and other bodies for design and specifications.

3 — To foster industry a levy not exceeding 6 per cent — raised in 1962 to 10 per cent — of the cost of raw materials or total wage bill of the preceding financial year would be imposed on industrial establishments for the stated purpose of industrial development.

4 — The above legislation coincided — not un-intentionally — with a striking change not only in the place of industry in general economic development, but also and more specifically in industrial policy. The reliance of industrial policy upon indirect instruments alone had not succeeded in laying the foundations of modern industry in Egypt. Industrial activity before 1952 was limited to some lines of production which originated during the conditions of the post-'Depression' and post-Second World War periods, and which were largely based on the processing of agricultural raw materials. Investment in industry in 1952 was approximately 12 per cent of total gross investment, and the contribution of the industrial sector to national income did not exceed some 10 per cent in the same year[17]. As a result of the sporadic measures taken by the Government in the early fifties — the setting-up of the National Production Council, the consolidation of the Industrial Bank, etc. ... — there has been a steady increase in private and public investments in different branches of industrial activity : oil, mining, iron and steel, textiles, fertilizers and chemical industries.

5 — Since 1958, the Government has taken a more positive role in forming industrial projects — first under the pioneer industrialization programme of 1957, later within the comprehensive development plans. Thus, reliance upon indirect instruments alone had given way to active and deliberate participation in raising new state-owned industries and maintaining them as such. As a general rule it can be said that the strengthening of this type of state action has stemmed from the broader objective of intensifying government incentives to overall economic development, but there is no doubt that it has been a direct result of a definite intention to speed up the industrialization process. This is borne out by the fact that the first State enterprises to be set-up on a large scale were in implementation of the first industrialization programme of 1957, and that the first overall development plan, with investments over-whelmingly in the public sector, did not come out but three years later.

6 — By the time the first comprehensive plan was launched on July 1st 1960, the decade of the fifties had witnessed a spectacular increase in industrial production, which raised its contribution in gross national product to almost 20 per cent by the end of that decade. The rate of increase of industrial production was accelerated during the nineteen sixties, to an average of 16 per cent per annum, except perhaps for the last three years of war-mobilization. The contribution of the industrial sector rose to 23 per cent of G.N.P. in 1969 (Table 3).

7 — The direct contribution of the State to industrial finance, in the form of new investments in industrialization programmes[10] totalled L.E. 83 million between December 1957 and June 1960, L.E. 516.5 million between July 1960 and June 1965, and L.E. 507.2 million between July 1965 and June 1970. In relation to total development spending these figures represent over one-fourth of realized gross capital formation during the period. The relation for plan figures is even much higher : 44 per cent in 1960 - 1965 and 48 per cent in 1965 - 70 (Table 1).

8 — The contribution of the Government to industrial finance was not, however, confined to the participation in new enterprises. The analysis of the Public Budget over the two periods 1950 - 60 and 1960 - 1970 shows that a considerable share of the increase in public expenditure has been allocated to industry. Public expenditure on development projects during the first period totalled L.E. 613 million, out of which L.E. 154 million was allocated to industry. At the same time, current expenditure by the Government for the running of projects in the field of industry and electricity (including operating costs of Public Organizations and Public Authorities) amounted to L.E. 257 million out of a total current public expenditure of L.E. 2443 million. During the second period, 1960-1970, development public expenditure allocated to industry totalled L.E. 1611 million out of a total development allocation of L.E. 3410 million, while current public expenditure allocated to industry amounted to L.E. 1148 million out of a total of L.E. 8729 million, (Table 1). In other words, against a 14 per cent of overall public expenditure allocated to industry during the fifties, a 23 per cent has been allocated in the sixties. The increase over the years is perhaps more revealing : from 7.5% in 1950 51 it reached 24% in 1969 70.

9 — The establishment and operation of industrial enterprises both in the public and the private sector were affected by other fiscal policy measures. In 1961, the Companies Law (No. 261/1954) was amended to allow the Government to raise sufficient funds for the finance of general economic development. Accordingly 5 per cent of net profits for distribution of joint-stock companies, limited partnership by shares companies and limited liability companies would be appropriated for the purchase of Government bonds. Furthermore, in 1967 several enactments affecting the distribution of profits[19] stipulated that, besides the allocation of this first 5 per cent :

i) a further 5 per cent of the net profits, for distribution of all joint-stock companies will be credited to «the legal reserve account» :

ii) another 5 percent — in the case of public sector companies — will be allocated to «the reserve for the rise in prices of fixed assets» :

iii) 10 per cent of 'net' profits of public sector companies available for distribution (after above deductions) will be allocated to «the consolidation fund» if the company's liquid assets fell short of its short-term liabilities[20];

iv) 5 per cent of paid-up capital will be allocated as a first distribution to shareholders and labour ;

v) 10 per cent of the remaining profits would be set aside for directors' remuneration to cover managerial and administrative expenses. In the case of private sector enterprises this represents an actual distribution, while for public sector enterprises it is transferred to the corresponding Public Organisation ;

vi) the balance of profits would further be distributed among shareholders and labour.

10 — The allocation under sub-paragraph 9ii governs public sector companies which are subject to the newly applied «uniform system of accounts». In that system, the shortcomings of the historical cost basis for calculating depreciation was acknowledged. To rectify it, while retaining the historical cost basis in formulating the «profit and loss account», funds would be earmarked — in the appropriation account — to meet the probable rise in prices of fixed assets.

11 — Distribution of profits to shareholders and labour (sub-paragraphs 9iv, vi) in public sector enterprises is again governed by specific legislation whereby 75 per cent of it represents the State - i.e. Ministry of the Treasury - (in lieu of shareholders) share, 5 per cent finances social and housing services for labour, 10 per cent is pooled for central social services for the district (to benefit labour), and 10 per cent represents direct cash distribution to labour.

12 — The above legislation was meant to regulate and encourage, among others, modernization and expansion schemes of public sector companies. Incentives for new industrial investment existed before the public sector came to dominate the industrial field. New industrial investment was exempted in 1953 from taxes for the purpose of development of the national economy. The exemption would last for seven years for new ventures and five years for expansions.

13 — It has also been pointed out before that import duty concessions and exemptions have been used to modify the tariff structure for imposts. An illustration is the change introduced in 1955 when the import and ad-valorem duties were reduced on some articles needed for the promotion of certain local industries, and removed altogether on others (raw materials for tyres and machinery for the cinema industry). Iron wares imported for the new iron and steel plant were totally exempted from import duties for three years. Again, when the 7 per cent ad-valorem duty was imposed in 1956 on imports for public revenue purposes, it discriminated in favour of raw materials, equipment and machinery required for development (industrial included) purposes, and also goods imported for re-export.

14 — Further fiscal incentives to industry took the form — originally embodied in the taxation law No. 14 1939 — of allowing the accumulation over a period of years of profits and losses to maximize the benefit of tax concessions. On the other hand no favourite fiscal treatment exists for modernization, expansion, or new investment in particular areas of industrial activity. Besides, the business profits tax seems to be rather excessive, amounting to almost 37 per cent :

17% as business profits tax ;
10% of the original tax for local administration ;

10.5% Defence tax.

8 % tax for national security.

Tax relief amounts to L.E. 150-250, and is removed if profits reach twice the corresponding tax limit. Business profits tax, for projects other than joint-stock companies, is paid on the share of each partner in the profits of the business, while it is paid in joint-stock companies after dividend distribution.

4 — **Other forms of incentive measures** (covers also 6 - 9)

1 — The foregoing review of general industrial development measures and direct state promotional and enterpreneurial activites suggests that a very substantial proportion of the efforts made had been directed towards encouraging the installation of new industrial activities. Equally important however was the action taken to secure the necessary improvement in the productivity and efficiency of existing enterprises, to provide pre-investment services in the stage of project formulation, to entice foreign capital participation and to promote industrial exports.

2 — Pre-investment services are provided by the Ministry of Industry and the Industrial Bank. According to Law 21, 1958 the Ministry of Industry is expected to provide industrialists with necessary information, offer grants for research work, and take part in creating training centres and other bodies for design and specifications. The Ministry's advice must be sought by those concerned when drawing up a policy for industrial financing. The same law allows public authorities to dispose of land for industrial buildings on easy terms and assist such buildings. The Industrial Bank, in its turn, takes part in preparing feasibility studies for industrial projects in the private sector.

3 — Foreign investment was also encouraged to take an increasing role in the development of industry. Minimum share of Egyptian capital in joint-stock companies was reduced from 51 to 49 per cent ; the right to transfer profits abroad, and to repatriate capital on five annual instalments after five years of investment was guaranteed. Foreign capital profiting from these provisions was defined as that employed in economic development projects[21].

4 — It was also specified in the same law that foreign experts and foremen selected from abroad to work on economic development projects may transfer abroad a portion (not exceeding one-half) of their wages, salaries and gratuities.

5 — In the field of technical assistance and technological research the Government has assumed greater responsibility. During the fifties, a «Permanent Council for Industrial Training and Efficiency» was created to study the needs of different industries for training, to supervise experiments made in this field by Government Departments and private institutions, to recommend training methods and to encourage training at private institutions through subsidies and technical assistance. Soon after, vocational and administrative training gained new dimensions. The Institute of Public Administration and the National Institute of Management Development were established, and subsequently, an Executive Conference Programme — for the development of top executives' managerial leadership — was begun. A Central Agency for Training was also set-up. Meanwhile, the system of in-service training has also been getting popular. State enterprises and some of the leading private firms have helped to build up the supply of technicians, especially in specific branches of industry, by training their own workers.

6 — The standardization of industrial products and processes was also introduced. In 1957 a Public Authority for standardization was set-up to provide standard specifications of industrial raw materials and products, and coordinate these with international specifications.

7 — To encourage industrial exports, which were regarded as the major source of foreign exchange revenues, State promotion and assistance extended in various directions. Export subsidies were introduced in the form of grants - in - aid to a number of industries. The «Cotton Spinning and Weaving Industry Assistance Fund» was formed in 1953 following the crisis the industry faced after the Second World War when inventory accumulation had reached such levels that the Government found itself obliged to step in and extend to the industry a grant of half-a-million pounds to encourage redirecting part of these inventories to export markets. The «Fund» was to

be managed by the Federation of Industries «to assist the disposal of cotton yarn and fabrics locally and on foreign markets. The «Fund» may grant loans to factories to enable them to gear their production to export requirements». These grants were termed «export differentials» and meant to cover the higher cost of local raw material used, and also the relatively high production cost. In 1967 68, it was decided — as a further measure to promote exports to hard currency countries — to grant exports to these areas an additional premium of 20 per cent of the value of exports (f.o.b.).

8 — Similarly, the «Assistance Fund for the rayon industry was set up within the Federation of Industries in 1957. It also had the purpose of "promoting the disposal of synthetic yarn and fabrics on local and foreign markets". The management of the Fund was to lay down the policy for «activating exports».

9 — Industrial exports are also accorded prime importance by the Industrial Bank, and, in this respect, the Bank has more recently taken a decision to establish an industrial compound — on the lines of industrial estates — for the benefit of small industries. Its 1967/68 Report[30] emphasises the encouragement given by the Bank towards industrial exports of leather goods, furniture, textile fabrics, through giving easy credit facilities to finance the production of these goods.

III — Brief evaluation of the package of industrial policies used

1 — An attempt to evaluate the industrial policy pursued in the A.R.E. up to the mid-fifties shows that although it has made valuable contributions, it has lacked cohesion and continuity. This first phase of industrial policy witnessed un-coordinated and often contradictory measures in terms of their possible impact on industry. While industry, for example, was subject in this early period to often excessive tax rates, agriculture and residential construction investment was either exempt or tax-favoured. Industry faced — at the time — a number of problems which were either neglected or overlooked :

i) absence of secure and permanent sources of finance ;
ii) dependence on extensive protectionist policies kept costs above standard levels ;
iii) modern techniques of production were often neglected.

2 — Planned industrial development, as evolved in the ARE in the late fifties and modified during the sixties helped to ensure that industrial policy maintain a degree of self-consistency conducive to increased efficacy of State industrial activities while providing through the planning machinery itself an active role for the private sector to play in the formulation and periodic revision of the policy in question. Effective industrial planning was, during the later phases of industrialization, the framework within which a proper industrial policy could evolve.

3 — While the role played by the State in industry in the forties and early fifties took the form of «promotional» participation in some industries, it has, since 1957, emerged as almost the sole industrial entrepreneur on a large scale ; hence the rise in the share of industry in total Government expenditure (current and development) from 7.5 per cent in 1950 51 to 24 per cent in 1969/70.

4 — Prior to the First Five-Years Industrialization Programme of 1957, it could be said in general terms that the public sector proper was not yet in existence. Government industrial policy was therefore directed mainly towards encouraging private capital to participate in new ventures, and to carry on modernization and expansion of existing capital; hence the nature of the varied legislation of that period, reviewed above. Following that line of policy, the National Production Council was empowered, in 1953, to :

i) examine and recommend projects of development in all fields of economic activity ;

ii) finance projects directly through public appropriations ,

iii) issue bonds with Government guarantees ;

iv) participate in the formation of joint-stock companies, and secure government guarantees for an annual return on paid-up capital as well as some fiscal privileges.

5 — At the same time the private sector was being encouraged by several direct and indirect means, fiscal policy was being developed in the later sixties towards giving more financial autonomy to public corporations. The «services» budget of the Government was separated from the «works» budget and the

losses of the publicly owned enterprises would no longer automatically be subsidised as a result. Under the old system profits made by public sector plants had gone straight back to the Treasury, which had also made good their losses. Now, enterprises would be expected to finance operations and, to a large extent, development from their own profits, and by recourse to the banking system[23].

6 — The banking system was re-organized into five big banks to serve — each of them — a particular branch or branches of economic activity. The private sector, while being also able to refer to commercial banks for finance, was being served particularly by the Industrial Bank.

7 — Legislation for the broader objective of financing development projects was also enacted in 1969, whereby an ad-valorem duty of 10 per cent of the value of all imports — except some food stuffs — was imposed for the benefit of the Ministry of the Treasury.

8 — State effort, since industrial planning was introduced, has been channelled in the direction of relatively substantial investment, in absolute terms, and entailing in the conditions prevalent in the A.R.E. at the time, relatively greater risks. In this sense, the role of State enterprise in industry has not been to compete with private capital, but rather to meet the growth requirements of the industrial sector which private enterprise was not in a position to serve, either because of the aggregate amount of resources needed, or because of the risks involved Thus, the iron and steel industry, during the fifties, and others in subsequent years such as the car industry, household appliances, etc came into being as public enterprises, benefiting by resources that could be drawn upon only through State channels.

9 — Although industrial policies described above had the objective of industrial promotion both in the public and the private sectors, they were nevertheless an integrated part of the overall general national economic policies. It is true that the tariff structure underwent several and in some cases un-coordinated modifications designed to take account of the industrial sector's needs; but it has also been an important source of budget revenue for the purpose of financing development projects

in general. However, the development of the public sector, which has fundamentally changed the structure and pattern of Egyptian economy, has also altered the role of the tariff structure therein as a source of public revenue, and a measure of protecting local industry. Customs duties still compose a principal source of revenue, but their relative importance has slightly declined owing to their slow rise in comparison to the rapid rise in other items of public revenue. The protective function of the tariff has also — probably more definitely - declined in importance, as the public sector is now the sole importer, and its import policy is designed to conform with the comprehensive development plan, hence the trend, effected in January 1962 of imposing a unified tariff rate proportional to the value of imports, except in a very limited number of cases such as tobacco. The unified rate replaced the four old types of customs duties: the fixed duty on imports, the proportional duty, the additional proportional duty and the "dock-dues".[24]

10 — State promotion in the field of industrial exports reflects a conscious commitment to increase foreign exchange resources through industry, but the form of industrial policy followed in the earlier periods seems to have jeopardized efforts towards this objective. The « extentive » type of industrial growth, generally employed in theA.R.E. until recently, made it difficult to combine import substitution with the introduction and expansion of a substantial flow of exports of manufactures. It will be argued, in a later section, that this very type of industrial growth is also responsible for the difficulties that stand in the way of industrial integration of the Arab countries.

11 — Closely related to this consideration is the question of how far industrial policy has been directed towards the individual domestic market, as compared with regional integration and the world market for manufactured products. It is obviously important to take advantage of every new opportunity that might arise to accelerate the growth of manufacturing industry, but the pattern of industrial policy which existed at a time when conditions were favourable to a strategy of extensive industrial policy based on import substitution need not continue to be the proper policy for opening up industry to external markets and of following, let alone leading, the changing pattern of world

trade in manufactures. Only quite recently — in preparing the guide-lines for the third industrial plan 1970 to 75 — has the development of production techniques in line with technological progress, particularly in the field of packing and wrapping of finished products been emphasised for purposes of competing on foreign markets.

12 — Industrial policy has also and quite oftenly included a number of insufficiently related measures or been expressed in terms of frequently not clear-cut objectives. The latest policy directives for industrial development in the 1970's rationalises the greater emphasis laid on capital goods in terms of at least three considerations : local production possibilities, mitigation of foreign exchange scarcity, and improvement in the strategy of industrialization.

13 — The optimum size of the firm was often overlooked in favour of self-sufficiency and in face of the temptation of easy industrialization through import substitution. Combined with a policy of protection from foreign competition that did not adopt a longer-term objective of overall national perspective, it encouraged high-cost production and excessive profits. Competitiveness on export markets was either impossible or required financial aid from public funds. Selectivity does not appear to have been pursued as yet on properly valued economic grounds. It is therefore of particular significance that industrial policy is now being re-shaped in favour of giving priority to raising already existing units to their optimum production levels.

14 — Economic and social aspects of industrial location, while taken into consideration in policy declarations, do not seem to have in effect been put to task. The three Governorates of Cairo, Giza and Kalyoubia, which could be considered as forming one huge industrial estate, still monopolize 42 per cent of total industrial investments in 1970. Together with Alexandria they combine about two-thirds of these investments. In other words, the past industrial development did not contribute to the integration of the internal economy, nor did it yet reduce very much the serious disequilibrium in the development of the component regions, or the disparity between their production and consumption capacities.

IV — Machinery used to formulate, and problems experienced in implementing, industrial policies and measures

1 — The brief outline of the preceding sections suggests that throughout a whole phase culminating in the late forties, the encouragement given to industry was chiefly confined to protectionist expedients. Thenceforth, the State undertook direct promotional activities which did not bear much fruit until the State stepped in as the major industrial entrepreneur with the inception of the first industrialisation programme in 1957, embodied later in the overall national plan.

2 — The Industrial Bank which started operations in October 1949 had taken eight years of study to come into being, and with a capital of L.E. 1.5 million— 51% of which was State participated, was not able to extend industrial credit facilities of more than L.E. 1.5 million until the end of 1952; a single long-term loan of L.E. 37000 was contracted. The Bank also participated in only industrial project to the extent of L.E. 50.000.

3 — With the setting-up of the National Production Council in 1952 a series of measures, discussed in more detail in earlier parts of this paper, were taken to promote industrial development in general, and certain branches of industrial activity in particular :

i) exempting in 1952 imported industrial raw materials from all customs duties and other excise taxes;

ii) exemption in 1953 from taxes new investment in the fields of industry, mining, power[24] Tax exemption included both the business profits and dividend taxes, and extended over seven years for new ventures or five years for expansions;[25]

iii) measures to consolidate individual industries such as the cotton spinning and weaving industry, the «Assistance Fund» for the artificial silk industry, the regulation of the manufacture and trade of the wollen and knitting products, the setting-up of a public authority for iron and steel, and for pharmaceutical products;

iv) raising the financial resources of the Industrial Bank in successive steps through State guarantees (see above);

v) State guarantees of a minimum rate of return on capital of some projects such as the iron and steel, and encouraging the Industrial Bank to participate by reducing interest on borrowed funds for that purpose to 1 per cent, which could even be cut in half or waived altogether in case the Bank's profits fell short of $4^1/_2$ per cent.

4 — Soon afterwards, a number of public institutions were set-up for the purpose of regulating the organizational structure of industry :

i) the «General Organization for Fostering Industry» which shall improve the standard production and cooperate with those responsible for the financing of enterprises;

ii) the «Federation of industries» which shall look after the common interests of industrialists, coordinate and supervise the activities of industrial chambers and local industrial councils, help the Government in the formulation and execution of industrial policy, and give its opinion on legislation and regulations relating to industry;

iii) the «Industrial chambers» which shall look after their members' common interests, and be their representatives with public authorities whom they assist in developing industry.

iv) the «Local Industrial Councils» which shall look after local interests and put forward to the Minister of Industry proposals that may help in planning industrial development in their province. Each industrial establishment of a capital of L.E. 5000 or more, or employing at least 25 workers was to be affiliated to the Chamber of its corresponding industry or industries[(7)].

5 — While the legislation concerning the Federation of Industries and the Chambers of Industry had an essentially organizational character, and laid down the foundation of joint consultation and cooperation between industry in the organized private sector and the public sector, that of the General Organization for Fostering Industry had a wider scope in the field of industrial development through research and training. Thus the Presidential Decree setting up that Organization entrusted it with :

i) work towards raising productive levels of industry in general through vocational training, scientific research, and lowering costs of production including aid-granting; and

ii) cooperation with competent authorities in lending and financing industrial establishments.

6 — About the same time a consultative body was established as the «Consultative Council for Industry» and had on its board representatives of various authorities and institutions working in the industrial field. The Federation of Industries and the Industrial Bank were, for example, represented as were the Ministries of the Treasury, Commerce, Economy etc. Individuals representing practical expertise were also included.

7 — In April 1967 an important milestone was laid down in the way of organizational structure of industry by Presidential Decree No. 1055 1967 which re-organized the «Public Authority for Industrialization»(2). Besides the high level—later reduced to direct subordination to the Minister of Industry — and wide scope representation on its board, the «Authority» had sweeping powers in the field of industry. For example, no industrial project is to be considered in the overall plan except after the consent of the «Authority» is obtained.

8 — Again, in 1968 a committee was formed by virtue of a Ministerial order to look into requests for setting-up new industrial enterprises, or expansion or modification of existing lines of production. Wide representation of all industrial interests was also observed in its formulation.

9 — Inter-departmental and inter-Ministerial Committees and boards exist at several levels. More important among these are perhaps two sets of groupings : joint committees for the Ministry of Planning purposes and «foreign trade» boards for the Ministry of Economy purposes. The former joint committees — for the industrial sector — scrutinize the industrial plan as laid down by the Ministry of Industry, while the latter group of boards set up the foreign trade plan for each commodity. The joint committees within the Ministry of Planning — which were formed in the early period of development planning — seem however to have ceased to operate. The Ministry of Industry assumes full control of plan formulation in the industrial sector. Individual plans — on the enterprise level — are collected and scrutinized by the corresponding public organization, which in turn passes a coordinated programme of further investment for

its branch of activity to the Ministry of Industry. Private sector industrialists apply for investment license to the Ministry of Industry. Finally, the Public Authority for Industrialization produces the integrated plan for the industrial sector, which is then incorporated by the Ministry of Planning with other sectoral plans into the national plan.

10 — Consequently, the industrial activities undertaken are often the product of a mere process of aggregation. Several public bodies, concerned with the formulation and application of industrial policy, still exert an indirect influence, through over-all economic policy measures, such as the Ministries of Economy and Foreign Trade, the Treasury, Labour and Planning, through monetary, fiscal and tariff policies. Ad hoc committees or boards empowered to decide on foreign trade, pricing, wages, etc, also share in the work or responsibility of formulating specific aspects of industrial policy. But the Ministry of Industry per se remains the central authority in the industrial field. And yet, the line or lines of policy that have evolved over the last ten-to-fifteen years have taken the shape of successive laws and resolutions that can hardly be traced to an over-all pattern of a uniform criterion.

V — Industrial policies in the context of regional co-operation.

1 — Regional cooperation in the field of industry covers a much wider scope than the act of negotiating — bilaterally or multilaterally — the development of one or more branches of industry. Regional co-operation is desirable not only as an objective, but also as a basic instrument of industrial policy. With the stage of industrialization reached so far in the A.R.E., a number of manufacturing projects has reached — or will sooner or later reach — a level scarcely compatible with the size of the home market. In the absence of effective regional cooperation, the continuance of the industrialization process and its acceleration in consonance with new needs would meet with difficult problems. Steel-making, the motor-vehicle industry, and petrochemicals are good examples of great potentialities of economies of scale.

2 — Several bilateral and multilateral agreements with foreign countries have been signed which bear directly on industrial

development. A few of these serve to illustrate the impact on industrial growth in the A.R.E. Bilateral agreements with the USSR helped initiate the first industrialization programme of 1957; many industrial projects in this and later programmes were supplied by the Soviet Union within industrial protocols that were signed for that purpose. More recently, an agreement for an iron and steel complex was signed. Poland, also agreed in 1967 to supply complete plants for production of electric zinc and for lead and zinc; foundries; transformation stations and steam boilers: Kraft paper; nitrogenous fertilizers; railways carriages etc.

3 — In the field of multilateral agreements the A.R.E., India and Yugoslavia signed an agreement in December 1966 whereby it was decided that cooperation in the field of industry could be intensified and enterprises encouraged to negotiate tripartite agreements. More specifically, it was considered that industrial cooperation could be extended to "industries engaged in the processing of agricultural products and of minerals, in the manufacture of capital goods and durables, and in the production of fertilizers and other chemical products". Of particular significance was the reference to joint consultation "in order to identify areas of fruitful cooperation with a view to promoting specialization in production, bringing about economies of scale". Further back, in May 1965, a protocol had been signed between the A.R.E. and Yugoslavia setting fields for industrial cooperation in the production of tractors and agricultural machinery, engines and motor vehicles, and the production of electrical equipment. It also laid down the basis for reciprocal credit facilities through the establishment of a Bureau for Economic Cooperation in Industry. On similar lines, the tripartite agreement of 1966 produced joint working committees for each branch of industry to meet and devise ways and means of furthering industrial cooperation of the partners.

4 — More recently, the A.R.E., the Sudan and Libya have also agreed to further their industrial development through regional cooperation. Similar — though bilateral—agreements are also concluded with other Arab countries.

5 — Wider economic cooperation in the industrial field has also been exercised by the A.R.E. within the framework of the Arab Economic Unity Agreement of 1957. Earlier, the Arab

Trade Convention — the first multilateral trade agreement among the State members of the Arab League—was a first step towards an Arab Common market. The«Convention» covered, in schedule B, some 150 items of light manufactures or processed goods, for which a 25 per cent reduction of the normal customs duties was provided for. Later amendments to the «Convention» added a schedule C of nationally manufactured goods which enjoyed accordingly a 50 per cent reduction, and schedule D providing for a 20 per cent reduction of the applied tariff in favour of certain assembled manufactures for which the cost of local labour and Arab raw material was at least 20 per cent of total production cost.[29]

6 — The Arab Economic Unity Council — in its often - referred - to Decision No. 17 — set 1 January 1965 as the starting date for the launching of efforts towards establishing an Arab Common Market. Industrial goods listed in Schedules B and C of the Convention are to become tariff-free over a transitional period of seven and one-half years and five years, respectively. Import duties on all other manufactured goods exchanged among participants are to be removed gradually at an annual rate of 10 per cent of the original duty. The freeing of all manufactured items from quantitative restrictions irrespective of their inclusion in Schedules B and C of the Arab Trade Convention is to take place at an annual rate of 10 per cent of the number of items coming under such restrictions as of 1 November 1964. No special provision was made for Schedule D.[30]

7 — The achievements, in the field of trade liberalization, reached by 1969 led the «Council» to rise to 20 per cent the rate at which manufactured items are being freed from quantitative restrictions. By January 1, 1970 all manufactured items in the «Arab Trade Convention» became totally tariff-free, while other manufactures receive 80 per cent reduction of the original duty. At the same time, 80 per cent of manufactured items in Schedules B and C are free of quantitative and other administrative restrictions.[31]

8 — To think however that a free, or freer, trade area is simply an open gate to more trade in manfactures is but a naive approach to the problem. A closer integration of the structu-

res of industrial production in the partner countries, to mention only one, is a more important factor in the common development of industry in the region. The characteristics of the earlier extensive type of industrial growth in the A.R.E., and the present trend in other Arab countries towards the same pattern, will eventually lead to a situation where the industries in each country would cover a whole range of manufactures in a given category. The great differences that exist would reflect the varying levels of industrial development reached by the Arab countries, and not specialization in particular lines -- or component parts of a line — within a given category, based on the country's natural resources and other factors.

CONCLUSION

1 — To conclude from the above appraisal of industrial development in the A.R.E. that there has been no basic industrial policy or that a strategy for the industrial sector has been lacking would be a gross over-simplification in a problem of a very complex nature. It is probably more appropriate to say that industrial policy was in the making. Several instruments guiding industrial policy formulation were not sufficiently co-ordinated or in time integrated into a coherent body. This aspect of the process of industrialization did not, however, mitigate against, let alone harm, the immediate rapid and very broad industrial growth that the A.R.E. has witnessed, and very definitely enjoyed, over the nineteen sixties. What is meant to be emphasised here is that unless the few shortcomings of past industrial policy — touched upon earlier — are remedied, industrial policy can hardly continue to meet its bolder responsibilities of the future efficiently.

2 — The effectiveness of industrial investment does not only depend on whether the funds are being properly channelled into the different branches of the manufacturing sector, but also on the efficiency with which production capacity — both existing and envisaged — is utilized. The position of manufactured products as regards efficiency and productivity is closely bound with the virtual absence of competition in which the country's industry in general has developed. The protectionist policy imposed by the external sector's limitations and by the

import substitution needs deriving therefrom has completely sheltered it from foreign competition. It also combined to produce a relatively high cost and price level for many manufactured products. We have argued before that an essential requisite for a successful industrial policy for the coming decades is an increasingly active share of world trade in manufactures, through regional integration, bilateral and multilateral cooperation, and in direct competition on world markets. A rational distribution of resources, including investment, in the industrial sector, fuller utilisation of installed capacity, and more competitive cost and price structure should therefore be a basic objective guiding industrial policy.

3 — Finally, the measures adopted to correct the locational pattern of industry in the A.R.E. do not seem to have been very effective. The old pattern of concentrating manufacturing expansion in centres that had already achieved considerable progress is not warranted now that public infra-structural investment is gradually reducing the previously distorted distribution of social and public services. On the other hand, there are signs already in certain areas that the location of industry in traditional urban centres no longer represents real external economies in the supply of these services — housing, transportation, etc. The State, assuming the initiative in industrial development, may well find it less costly, and for community development purposes more rewarding, to create new urban centres to accomodate further industrial expansion.

Footnotes

1 The process of industrial development in Latin America, United Nations Economic Commission for Latin America, New York, 1966. Sales No. 66 II G 4, p. 228.

2 - Law 141 1955 set up a National Planning Commission headed by the Prime Minister, to layout a comprehensive national plan for social and economic development.

3 For a detailed account of this period, see 'A Socialist Pattern of Society' in the National Bank of Egypt 'Economic Bulletin', volume XIV No. 3, 1961, pp. 274-281

4 The problems and policies of economic development, an appraisal of recent expedience, World Economic Survey, 1967, Part one. United Nations, New York, 1968, ST ECA 104 table 6, pp 20-21

5 14 per cent

6 - Total cost here carries the projects further than each plan's period.

7 The term here seems to refer to producer's industries

8 See footnote to table 4.

9 The National Bank of Egypt Economic Bulletin No. 4. 1969 p. 323.

10 The problems and policies of economic development; an appraisal of recent experience. op cit., table 51, p. 61

11 — 'The process of industrial development in Latin America', op. cit., p. 156.

12 - The National Bank of Egypt Economic Bulletin several issues

13 For a more detailed study of the new tariff system see 'The New Customs Tariff', the A.R.E. Federation of Industries, Cairo 1963, Egyptian Universities Publishing House, January 1963.

14 'The Economy of the U.A.R. during the 1960's', National Bank of Egypt, Cairo 1963, p. 87

15 Central Bank of Egypt, circular No. 161 1964 (1.2 1969). The exemption relating to the minimum rate of interest was later cancelled according to circular No. 190 1970 (22 7.1970)

16 Law No. 12 1958, Official Journal of the A.R.E. No 7 'bis' A of 29 April 1958.

17 'Industrial development in Africa', United Nations, New York, 1967, Sales No 66 II B 24, p. 259

18 Realised Gross capital formation.

19 Commercial Bank were excluded

20 - Introduced in January 1969 (Prime Minister's Decree No 41 1969).

21 Law 156 1953 amended by Law No. 175 1954.

22 Report of the Board of Directors of the Industrial Bank, 1967/68, p. 4.

23 — Legislation regulating the system of distribution and appropriation of company profits to serve that purpose was discussed earlier, see section II 4.

24 The 'customs statistics free' amounting to 5 — later reduced to 1 — per cent of the value of imports is kept.

25 Land reclamation projects were also covered.

26 These provisions were negated by Law 137/1962, on 13.9.1962.

27 — Presidential Decree, Official Journal No. 12, 20 May 1968.

28 - The 'Authority' supersedes the 'General Organization for the Execution of the Five Years' Industrial Programme' which was established in 1957.

29 — 'Studies on selected development problems in various countries in the Middle East', United Nations Economic and Social Office in Beirut, United Nations, New York, 1967, p. 25; Sales No. 7 II C. 9.

30 - Ibid, p. 26.

31 — 'Development of Arab Economic Co-operation', A. El-Banna, Paper presented to the Arab Economists Round-Table, Cairo May-June 1970.

TABLE I.– Public expenditure on Industry (1), millions of L.E. 1950-1970

	(A) current			(B) development		
	Total Public expenditure	value	Industry %	Total public expenditure	value	Industry %
1950-51	160	5	3%	31	9	30%
51	199	6	3	35	6	17
52	185	5	3	25	5	18
53	185	8	4	48	19	40
54	213	15	7	57	13	23
55	255	16	6	88	17	19
56	292	37	13	67	16	24
57	260	21	8	59	14	24
58	336	66	20	78	26	33
59-60	358	79	22	127	59	46
1960-61	414	78	19	286	109	38
61	459	81	18	315	122	39
62	650	73	11	362	168	45
63	669	67	10	411	218	53
64	742	60	8	442	200	45
65	861	77	9	345	184	53
66	948	78	8	368	180	49
67	849	57	7	232	105	45
68	1496	267	18	298	164	55
69-70	1641	310	19	350	161	46

1) Includes mining and electricity (and the High Dam after 1960).

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TABLE 2. **Industrialization Plans in the ARE: 1958-1970**

	1st Industrial Programme 1958–1960		2nd Industrial Programme 1960 1965		3rd Industrial Programme 1965–1970	
	No. of Projects	Total Cost m.L.E.	No. of projects	Total Cost m.L.E.	No. of Projects	Total Cost m.L.E.
Mining	14	15.0	95	105.3	27	59.1
Petroleum			22	97.8	23	96.9
Petrochemicals	14	55.7	1	55.0	1	55.0
Chemicals			214	231.6	68	212.8
Building materials			17	5.6	57	65.2
Metallugical industry			32	107.4	48	202.5
Engineering industry	456	258.1	319	151.7	64	185.6
Food processing			339	157.6	43	84.3
Textiles			187	104.9	103	87.3
Handicraft, rural & small industries			174	8.2	488	22.3
Training centres	18	1.7	40	7.4	20	6.6
Total	**502**	**330.5**	**1440**	**1032.5**	**942**	**1077.6**
Realized at end of programme	105	83.5	931	467.0	...	507.2
Rate of achievement			65%	45%		

Source of table: Compiled from, «Industrial Development in the UAR», United Nations, Industrial Development in Africa, New York 1967, Sales No. 68 II B. 24, pp. 289-301.

TABLE 3.—Value and percentage of Gross fixed capital formation in industry, and the contribution of industrial income to gross domestic product; current prices in millions of L.E. 1959-60 - 1967-68.

	industry	Total	% of industry to total	Contribution of industry	Total	% of industry to total
1959-60	49.3	171.4	28.8	256.3	1285.2	19.9
60-61	67.8	225.6	30.1	285.6	1363.5	21.0
61-62	50.3	251.1	20.0	309.9	1411.1	22.0
62-63	80.5	299.6	26.9	350.9	1562.8	22.5
63-64	105.4	372.4	28.3	392.3	1739.6	22.6
64-65	99.9	364.3	27.4	423.4	1975.0	21.4
65-66	100.6	383.8	26.2	463.1	2124.1	21.8
66-67	98.4	365.8	29.9	477.4	2193.5	21.8
67-68	85.8	298.0	28.8	488.9	2164.8	22.6
Total	738.0	2732.0	27.0			21.9
1958-June 59(1)	34.2					
Total	772.2					

(1) First Five Years Industrial Programme, see Table 2.

Source : Central Agency for Public Mobilisation and Statistics. General Statistics & Analytical Studies, 7th Volume, Dec. 1969, p. 401, 1967-68 is taken from the Ministry of Planning Follow up Reports of 1967-68.

TABLE 4. Production, employment and wages in industry, in current prices, 1959-1960 — 1966-67

	Gross production(1)		Employment		Wages	
	value in millions of L.E.	percentage to National production	in industry, in 000's	percentage of total active	in industry in millions of L.E.	percentage of total wage bill
1959-60	1087	42.7	602	10.0	89	16.2
60-61	1152	42.9	626	9.6	78	13.8
61-62	1198	43.1	679	10.2	90	14.6
62-63	1374	43.6	726	10.6	125	17.7
63-64	1504	42.9	790	11.1	138	17.4
64-65	1624	41.9	825	11.2	150	16.8
65-66	1769	41.9	842	11.1	154	15.8
66-67	1835	41.8	847	11.0	155	15.3

(1) Gross production includes, according to the terminology of Egyptian planners, intermediate products. It therefore involves double-counting and explains the huge discrepancy between Gross production and Gross national products.

Source : Central Agency for Public Mobilisation and Statistics, 1969.

TABLE 5. Value of Industrial production, by major groups, in millions of current L.E., 1952, and 1962/63 – 1967/68

	Manufacturing	Metallurgical	Petrochemicals	Electricity	Total industrial
1952	266	3.6	34	10	314
1962-63	757	8.2	93	42	899
63-64	879	8.7	108	49	1045
64-65	952	8.8	128	52	1140
65-66	1029	9.7	128	57	1224
66-67	1093	7.9	108	47	1256
67-68(1)	1178	8.9	90	58	1335

1) Provisional.
Source : Statistical Indicators of the U.A.R., November 1969. Central Agency for Public Mobilisation and Statistics, p. 102.

TABLE 6. Value of manufacturing production, in public and private sectors, by major groups in millions of current L.E. 1963-1964 - 1967-1968.

	Spinning & Weaving	Foodstuffs	Chemical	Engineering (1)	Construction & building	Total manufacturing
A. *Public Sector*						
1963-64	236	207	95	105	23	666
64-65	244	227	112	107	25	715
65-66	257	228	128	119	26	758
66-67	290	256	128	110	26	810
67-68(2)	345	270	135	111	25	886
B. *Private Sector*						
63-64	89	47	17	54	6	213
64-65	101	49	19	62	6	237
65-66	115	59	21	69	6	270
66-67	112	79	20	66	6	283
67-68(2)	109	90	20	68	5	292
C. *Aggregate manufacturing*						
63-64	325	254	112	159	29	879
64-65	345	276	131	169	31	952
65-66	372	287	149	188	32	1 028
66-67	402	335	148	176	32	1 093
67-68(2)	454	360	155	179	30	1 178

1) Includes metallurgical 2) Provisional Source : As in table 5, p. 113.

TABLE 7. -Industrial exports, by major groups, in millions of current L.E., 1959-60 1967-1968.

	Total exports	Spinning & Weaving		Foodstuffs		Chemical		Engineering		Other Industiral exports		Total Industrial	
		value	% to total	value	% to total	value	% to total	value	% to total	value	% to total	value	% to total
1959-1960	189.9	18.3	9.7	3.8	2.0	1	1	1	1	12.0	6.4	34.1	18.0
1960	189.0	21.3	11.3	3.9	2.1	1	1	1	1	11.8	6.2	37.0	19.6
61-62	151.0	21.0	13.9	5.0	3.3	1	1	1	1	12.4	8.2	38.4	25.4
62-63	197.8	22.0	11.1	5.5	2.8	1	1	1	1	14.9	7.5	42.4	21.4
63-64	238.2	33.1	13.9	6.3	2.6	1.9	0.8	1	1	16.7	7.0	58.0	24.3
64-65	265.2	37.2	14.0	6.2	2.3	2.1	0.8	1	1	21.6	9.1	65.4	24.7
65-66	258.5	43.7	16.9	5.6	2.2	1.7	0.6	1	1	18.4	7.1	69.4	26.8
66-67	261.3	52.0	19.9	5.9	2.3	1.8	0.7	1.9	0.7	16.2	6.2	77.8	29.7
67-68	246.5	51.5	20.9	7.7	3.1	2.6	1.1	3.3	1.3	11.9	4.8	77.0	31.2

1) Included in other industrial exports.
Source : Ministry of Planning follow-up Reports, several years.

TABLE 8.—Net new investments in industry, 1951-1959, in millions of L.E.

	1951	1952	1953	1954	1955	1956	1957	1958	1959	Total 1951-1959
1.—New registered capital	1.1	1.2	1.9	2.8	7.3	27.3	13.6	8.7	14.3	78.2
joint-stock companies	...	...	...	.	4.0	24.0	10.6	6.1	9.4	
2.—Expansions	1.3	1.2	1.3	1.3	3.3	1.3	1.0	5.2	5.3	21.2
joint-stock capital	...	...	...	...	3.1	0.8	0.7	4.7	4.5	
3.—Contractions	0.3	0.3	0.2	0.5	0.9	2.4	1.7	1.1	0.7	8.1
joint-stock capital	...	...	...	...	0.3	2.1	1.2	0.3	0.2	
4.- Net new investment	2.1	2.1	1.2	3.6	9.7	26.2	12.9	12.8	18.9	89.5
joint-stock capital	...	...	...	...	6.8	22.7	10.1	10.5	13.7	

... = not available

Source : Federation of industries annual year-book, several issues.

TABLE 9. Net new investments in industry, and trade commerce, 1951-59, in millions of L.E.

	Industry	Trade & Commerce	Total	Industry as % to total
1951	2.1	6.9	9.0	23.3
1952	2.1	9.4	11.5	18.3
1953	1.2	6.1	7.3	16.4
1954	3.6	6.3	9.9	36.4
1955	9.7	3.0	12.7	76.4
1956	26.2	2.9	29.1	90.0
1957	12.9	2.7	15.6	82.7
1958	12.8	3.3	16.1	79.5
1959	18.9	5.1	24.0	78.8

Source : As in table 8.

TABLE 10. The contribution of Bank credit to general economic and industrial development, figures in millions of current L.E. and percentages, 1960-1967

Period	End of June			End of December			% contribution of Bank credit to	
	Bank Credit			Bank Credit				
	Total	industry	% of industry to total	Total	industry	% of industry to total	gross domestic product (1)	industrial income (2)
1960	257	115	44.9	298	110	37.0	20.0	44.9
1961	283	127	44.8	321	137	42.6	20.8	44.5
1962	309	147	47.5	382	151	39.5	21.9	47.4
1963	372	177	47.6	424	195	46.1	22.8	50.4
1964	304	169	55.5	456	187	41.1	17.5	43.1
1965	412	192	46.6	509	197	38.7	21.9	45.3
1966	410	194	47.2	475	220	46.3	19.6	41.8
1967	425	226	53.1	...	...	...	19.5	47.3

1) Total bank credit, end of June figures, to gross domestic product in fiscal years ending June of year shown.
2) Industrial bank credit, end of June figures, to industrial income in fiscal years ending June of year shown.

Source : Constructed from data available in credit and banking development, Central Bank of Egypt, several issues; and follow-up reports of the Ministry of Planning, several years.

TABLE 11. Distribution of Industrial Bank loans and advances, by maturity, 1958-1968, Millions of L.E. & percentages.

	Total	% to total of loans payable		
	(millions)	within one year	1-5 years	5-10 years
End of December				
1958	5.2	75.5	7.5	17.0
1959	6.7	82.1	7.5	10.4
1960	8.5	75.3	15.3	9.4
1961	9.1	76.9	11.0	12.1
1962	8.6	77.9	9.3	12.8
1963	8.5	84.7	4.7	10.6
1964	8.4	83.3	3.6	13.1
1965	8.2	76.9	2.4	20.7
1966	11.5	36.5	20.0	43.5
1967	14.2	54.1	23.9	22.0
1968	14.6	17.3	25.5	57.2

Source: Credit and Banking Developments, Central Bank of Egypt, several issues.

TABLE 12.— **Annual disbursements of Industrial Bank loans and advances, by ministry, in millions of L. E.**

	Total	*Payable*					
		Within one year		1-5 years		more than 5 years	
		value	%	value	%	value	%
1962-63	917	92	10.0	49	5.3	776	84.7
63-64	880	102	11.6	80	9.1	698	79.3
64-65	1169	32	2.7	238	20.4	899	76.9
65-66	2524		–	379	15.0	2145	85.0
66-67	4781	-		1248	26.1	3533	73.9
67-68	3973	—	—	2196	55.3	1777	44.7

Source : Report of the Board of directors of the Industrial Bank, several years.

TABLE 13.—Distribution of disbursements of Industrial Bank loans, according to size of loan and by sectors, 1962/63 - 1967/68

	Size of loan disbursements						Sector				Economic activity										
	Less than 10		10 – 100		100 and over		Public		Private		Total	Spinning & Weaving		Engineering		Chemical		Paper & Printing		Other	
	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total
1962/63	70	7.7	147	16.0	700	76.3	674	73.5	143	15.6	917	569	62.1	182	19.8	32	3.5	106	11.6	28	3.0
1963/64	147	16.7	133	15.1	600	68.2	689	78.3	191	21.7	880	588	66.9	209	23.8	52	5.6	27	3.0	4	0.7
1964/65	19	1.6	229	19.6	921	78.8	1002	75.7	167	14.3	1169	560	47.9	179	15.3	63	5.4	366	31.3	1	0.1
1965/66	228	9.1	428	16.9	1868	74.0	1973	78.2	551	21.8	2524	313	12.4	274	10.9	689	27.3	82	3.2	1166	46.2
1966/67	241	5.2	725	15.1	3815	79.7	3941	82.4	618	12.9	4781[1]	412	8.6	296	6.2	784	16.4	187	3.9	3102	64.9
1967/68	547	13.8	1062	26.7	2364	59.5	2376[2]	59.8	1360	34.2	3973[2]	428	10.8	430	10.9	2078	52.3	147	3.7	890	22.3

1 Includes L.E. 222 000's & L.E. 237 000's granted to the cooperative sector for the year 66-67 & 67/68 respectively.
2 Includes L.E. 128 thousand granted to Organizations affiliated to A.S.U.
Source: As in table 12.

THE INTERNATIONAL CURRENCY CRISIS

Dr. WAGUIH SHINDY

Part I

A.—Preface

The foundation of the present international financial system was layed down during the Bretton Woods Conference in 1944. From then to 1959 the system was not rightly tested because most European currencies were not fully convertible. Thus, the system was not actually tested except later.

Paradoxically, the forces that were responsible for the strength of some European currencies, have started to work against the strength of the dollar by the end of the fifties.

Financial experts like Professor Robert Triffin thus predicted the breakdown of the present international monetary system, and even pronounced its death since 1959.(1)

A major change in the system was experienced in the sixties. The Pound Sterling was devaluated along with the French franc, etc... The creation of the special Drawing Rights by the I.M.F. and lately the return to a two-tier gold system. The present crisis can also be considered as another stage in the breakdown of the system although it is far-reaching in its implications.

The International flow of capital, especially dollars from the United States and the Euro-dollar market to Western Europe, started at the end of 1970 and the first months of 1971. The month of April, 1971, however, witnessed a record volume of daily flow of dollars reaching almost 1 billion dollars on a single day in Frankfurt and almost 250 million dollars in Switzerland.

By the end of April, the flow of dollars declined only to reach monumental volumes at the beginning of May 1971. The

1) Neither Gold nor the Dollar, Robert Triffin, in the International Monetary System, U.S. Chamber of Commerce, page 1.

amount of inflow posed a very complicated problem both for the Central Bank in Western Europe and the U.S. financial authorities, and later led to a questioning of the international status of the dollar.

On May 5, 1971, the Central Banks of some European countries were pressed, in their support operations, to add almost 2.5 billion dollars to their reserves. Of this amount, the German financial authorities provided 600 million, the Dutch authorities 240 million, the Belgian authorities almost 100 million.

Had it not been for the withdrawal of support operations at noon by central banks, the amounts could have been larger. Most important banks in Europe suspended operations from Wednesday, May 5 to the following Monday, May 10, 1971.

During this short period several meetings took place to find a solution for this very pressing problem. In addition, the Finance Ministers of the European Economic Community met to agree about measures to be taken to stop the inflow of dollars. As will be discussed later, the European countries were unable to reach a unified stand. Thus every country took unilateral action which was disclosed on the evening of May 9, 1971, to enable the financial market to reopen on Monday, May 10.

West Germany and the Netherlands decided to float their currencies, Switzerland and Austria decided to revalue their currencies by 7 and 2.65 percent respectively, while France was faithful to its own request for an increase in the price of gold.

The second phase of the problem came as a result of the gloomy picture of the U.S. economy. In particular the staggering estimates of the imbalance in the U.S. balance of international payments brought about President Nixon's program to rescue the dollar decided to stop the outflow of funds and reduce, if not totally eliminate, the deficit within few years.

President Nixon announced on August 15, 1971, his program to deal with the real causes of the problem instead of its symptoms. The program is an inter-related attack on both foreign as well as the domestic causes of the problem.

On the international front the President announced the following measures :

1 — The temporary suspension of full convertibility of dollars into gold or other reserve assets for Government and Central Banks

2 — The imposition of a temporary surcharge on imports to the United States, generally at a rate of 10 percent.

3 — A ten percent reduction in the foreign economic aid-

On the domestic front, the President announced :

1 — A ninety-days freeze on all prices and wages.

2 — Creation of a Cost of Living Council to effect a transition from the temporary freeze to continued price and wage stability.

3 — Recommendation that Congress erect an accelerated tax credit on investment at the rate of 10 percent for one year, to be followed by a permanent credit at the rate of 5 percent.

4 — Recommendation that Congress repeal the 7 percent excise tax on automobiles.

Most experts were surprised by this program. Although no one questioned the right or even the duty of any country, including the U.S., to solve its own economic problems, however the actions went for a field from the required remedies! The U.S. attitude from the beginning of the crisis was lay tax.

The Nixon's program affected both the international financial as well as the international trading system. On the financial aspect it meant closing the gold window by stopping the convertibility of dollars into gold. The trade aspects of the measure, especially the 10 percent surcharge, were considered completely unusual steps taken against the interest of most Western countries. It actually meant a de facto devaluation of the dollar. In addition it reminded different countries of the old days of trade restrictions and trade war.

This autumn, every country tried to look after its self-interest. Thus each country took whatever measure to protect its financial and trade interests it thought necessary. They moved within international organizations like the General Agreement on Tariffs and Trade (G.A.T.T.), the International Monetary Fund (I.M.F.) and the Bank for International Settlements (B.I.S.), plus regional organizations like the O.E.C.D. and the E.E.C. to reduce the seriousness of the actions and to find the proper solution for this most pressing problem for the World economy.

Unfortunately, collective actions take time; thus different countries relied on unilateral action to countervail the American measures as we will see later.

The final stage of the crisis witnessed the different efforts by the group of ten and various summit meetings between the European leaders and President Nixon, during which the U.S. government declared its willingness to make a compromise by devaluing the dollar, coupled with an increase in the price of gold from 35 to 38 dollars an ounce, and the abolition of the 10 percent surcharge. Most European countries, in turn, agreed to revalue their currencies and to negotiate trade problems with the U.S. Thus an important and far-reaching step was taken to solve the monetary crisis of 1971. The ramifications of this agreement go way beyond regular parity realignment to affect the status of dollar and even the future of the international monetary system.

B.—The real reasons behind the crisis :

It is difficult if not impossible to pin-point one specific reason as the real cause behind the currency crisis of 1971. In fact, it was the culmination of different but interrelated factors that brought the crisis to a head. The following factors are the most important;

1 — the continued imbalance in the U.S. balance of international payments which prevailed for several years,

2 — the nature and the effct of the Euro-dollar market which entails a vast pool of liquid and irregulated resources,

3 — and finally, the difference in kind between the economic problem facing the United States and most European countries and other international monetary problems, and with it the complexity of the fiscal and monetary policies required to deal with it (especially the interest rates).

1 — The U.S. Balance of International Payments

The U.S. balance of international payments was and still is a great cause for the trouble in the International Monetary System. Beginning with the fifties the U.S. balance of payments has been in deficit, irrespective of the definition used.

From 1949 to the beginning of 1971 the deficit exceeded 42,000 million dollars.(1) Out of this enormous amount only 13,000 million was covered from the U.S. reserves. The rest was financed by accumulating dollar assets abroad. The U.S. was practically the only country able to keep such a disequilibrium for so long a period because of the role of the dollar as the official international currency.

In the early years of the period, the deficits were seen as part of a process of achieving a more adequate distribution of world reserves, thus enabling the European countries to establish convertibility. "U.S. reserves were high and the convertibility of the dollar into gold was out questioned".(2)

When the European countries plus Japan reacquired their competitive strength in relation to the U.S., they accumulated surpluses and started to convert their dollar holdings to gold from the U.S. gold reserves. Furthermore, in contrast with the preceding period, the U.S. deficit in these years was financed in major parts by a drawing down of reserve assets.

However, with passage of time, it was evident that this situation could not last forever. The U.S. gold reserves have been reduced from 24,000 million dollars, since the war, to about 10,000 million in 1971, while its short-term indebtedness skyrocketed from 7,000 million to almost 48,000 million in the summer of 1971. Furthermore, the surplus countries in Europe became more and more impatient. On one hand, they knew that the U.S. cannot meet its obligations, and on the other it is continuously exporting inflation to their domestic economies.

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1) On Liquidity basis, Dr. H.E. Aschinger, Economic Advisor to the Swiss Bank Corp. Prospects, Sept. 1971

2) Developments in the International Monetary System, Frank Southard Jr. I.M.F., November 15, 1971

Perhaps the last stroke came as a result of the forecast of the Department of Commerce about the worsening of the merchandise trade balance, which was considered by a distinguished bank as the most striking development.

Traditionally the U.S. trade balance was in surplus. The range varied between more than 4 billions to two billions a year A trade surplus with foreign countries meant a reduction in the overall deficit of the balance of international payment. However, for the first time since 1893 the Commerce Department estimated a deficit in the trade balance of about 2.1 billion dollars which would wipe the 1970 surplus.

In fact U.S. total reserve assets dropped to about 12 billion dollars in August 1971, making it the lowest decline in U.S. history. At this level, U.S. reserves were lower than 1937, its reserves stood at 12.31 billions, all of which were in gold.

2 — The role of the Euro-dollar market

The difference in economic publicies between the U.S. on the one hand and most European countries on the other, plus the interest rate differential, opened the door wide open for one of the most efficient and most competitive financial markets to act, i.e. the Euro-dollar market.

By definition, the Euro-dollar market is "the market in U.S. dollars held on deposit with banks outside the U.S."(1) Although these are also markets for European currencies outside the countries in which these currencies are considered legal tender, like the Euro-marks in London and Euro-sterling in Continental Markets, nevertheless, the size of the Euro-dollar market has increased from a few billions in the early sixties to 25 billions in 1968 and approximately 50 billions by 1971.

These vast financial resources have been traditionally free to move to European countries, U.S.A. and other interested countries in the world. They have been used by banks, business corporations, Central Banks and even individuals. Until the beginning of June 1971 the resources of the Euro-dollar mar-

1) Euro-dollar Banking M.E.L., First National City Bank, July 1971 pp. 11 to 15.

ket have been used freely. The governing criteria for their use has been the competetiveness of their rates. In several instances its role has been called "the tyranny of the Euro-dollar market" because it was and still is, to a lesser extent, a source of instability to the international financial system.

During 1969 most of the demand for Euro-dollars came from the United States because of the tight credit conditions. In that year alone 15 billion dollars were borrowed by U.S. Banks. When U.S. banks were able to obtain funds in the domestic market at a relatively cheap rate, their borrowing from the Euro-dollar market declined to 7.7billions in 1970 and to only 2.3 billions in June 23, 1971.

In fact the tide has been reversed and most of the U.S. banks started to borrow from the domestic market to repay the relatively high interest Euro-dollar borrowing.

At the same time the business communities in some European countries, especially West Germany, have considered the Euro-dollar market as the right way out of the tight credit conditions in their domestic market.

The strong demand for Euro-dollars by the industrial and commercial firms in West Germany coupled with the huge repayments of previously borrowed funds by U.S. banks and firms resulted in a massive flow of dollars to Germany. Moreover, the financial dealers have learned from their experience that it is safe to transfer their funds to Marks. The past experience of upvaluing the Mark twice confirmed this psychological feeling.

Furthermore, central banks used to deposit funds with the Euro-dollar market for years. However, most of the Euro-dollar supplies came from individuals and the business community. During the 12 months previous to the crisis this pattern was altered. Banks, especially central Banks became the main suppliers of Euro-dollars. At the end of the first quarter of 1971 more than 9 billion dollars (of the outstanding amount) were placed by Central Banks. Also due to the rise in the dollar reserves of most West European central banks and the inability of the U.S. money market to offer competetive returns, more funds were placed with the Euro-dollar market. In fact, by the end of the first quarter of 1971 more than a billion dollars were placed by central banks. Thus they became the main supplier of funds in 1970. This is in sharp contrast to the previous pattern in which individuals and the business community were the main sources of funds.

3 — The difference in the nature of the economic problem

The difference in the nature of the economic problem between the U.S. and most European countries (especially the disparities in the business cycles) gave rise to differences in interest rates and the degree of tightness in the money market. Thus while the U.S. was trying to foster expansion in the economy as a part of its policy to invigorate a depressed economy with a high rate of unemployment, most European countries were trying to damper inflation by making money dearer in their markets.

The large difference in interest rates between the American money market, the Euro-dollar market, and the European money markets resulted in massive accumulation of dollars by foreign Central Banks. Interest rates were reduced several times during 1970 and 1971 to reach half of its levels in a period of 12 months.(1) The Treasury Department reduced interest rates on its bills from 8 per cent in December 1969, to 3.5 per cent in April 1971. Furthermore, the Federal Reserve discount rate was reduced five times since November 13, 1970.(2)

At the same time, the prevailing interest rate in European money markets was around 6 to 7 per cent in March 1971. In their attempt to damper inflation most European countries tried to reduce the interest rates by 0.5 to 1 per cent at the end of March and the beginning of April, 1971, to limit financial expansion.

From March to December 3, 1970 the West German government reduced the interest rate three times from 7.5 per cent to 6 per cent. In April, 1971, the rate was reduced again to 5 per cent. However, the interest rate in Europe was still higher than the prevailing rate in the U.S.

1) The Times, April 2, 1971.
2) International Herald Tribune, April 1971.

American banks and corporations made use of interest rate differentials by rapidly borrowing funds from their ample domestic market to repay their high cost Euro-dollar borrowings. As a result the Euro-dollar rates were sharply reduced.

Foreign borrowers were encouraged, therefore, to obtain funds in the Euro-dollar market rather than the local money markets because of the reduced interest in the latter. Used internally, these funds were presented to Central Banks for conversion into local currencies thus increasing the dollar holdings of European Central Banks.

C.—The anatomy of the problem.

The world monetary system has witnessed a second flow of dollars to several European countries, especially West Germany. The flow has started in the early months of 1971. The month of April however, witnessed a record volume of almost one billion dollars on a single day in Frankfurt and almost 250 million in Switzerland.

By the end of April the flow of dollars was reduced only to reach monumental levels at the beginning of May. The level of inflow reached 2.5 billion dollars during the early hours of May 5, 1971. Thus the central banks of several European countries were pressed, in their support operations, to add almost 2.5 billion dollars to their reserves. Of these the German financial authorities alone absorbed almost 1 billion, the Swiss financial authorities 600 million, the Dutch authorities 240 million and the Belgian authorities almost 100 million dollars.

Central banks were forced therefore to abandon their support operations for the dollar and close their doors until May 10, 1971. During the few days from May 5 to May 9, 1971, numerous contacts and serious efforts were made in an attempt to find the right solution to this problem.

The right solution to this impass was by no means easy to find. First there was a difference in views between the financial authorities in the various countries; second, there was a sharp difference in views between the main partners to the problem, viz. the U.S. and the European countries, and between the European countries themselves, especially in the case of Germany and France. There was also a difference of opinion as to the proposed action of member countries in the Common Market and just what was in the best interest of the Market as a whole.

In this kind of situation, however, it was very difficult, if not impossible, to reach a common stand supported by rational economic reasoning. Thus, each country tried to protect its self-interest given the prevailing international forces and pressures.

The U.S. financial authorities took a very passive view of the crisis. The U.S. Treasury Department declared that the monetary unrest need not bring about any parity changes or any shift in policy. In fact some officials declared that there was little that the U.S. could do to solve the problem.

Furthermore, the possibility of increasing the price of gold, which has been raised several times during the sixties, was quickly dismissed by U.S. officials as an old balloon which has been burst long ago.(1) Thus they passed the problem onto the European countries, especially West Germany, by their «wait-and-see» attitude.

In fact, they ascribed to the problem the wrong causes. They viewed it as a result of the differential in interest rates, which could be solved when the U.S. economy enters into an expansionary phase. Through further growth and expansion the increase in domestic demand for funds would iron out the difference in interest rates.

D — The Case for Germany

The ability of the German Central Bank to pursue an effective domestic monetary policy was greatly weakened by the huge inflow of short term funds into Germany, mainly from the U.S. and the Euro-dollar market. In 1970 about 6 billion dollars were transferred. In the first four months of 1971 an additional 3 billion dollars were absorbed. During the three days of May 3 - 5 about 2 billion dollars were transferred, thus bringing the total to more than 11 billions in less than a year and a half.

(1) Statement by Paul Volcker, U.S. Under Secretary of the Treasury reported in the Financial Times, May 6, 1971.

Thus, to stem the flow of dollars into West Germany and to brake the country's mounting inflation which was estimated to reach 4.5 per cent during 1971 (1), four of West Germany's five principal economic institutes(2) recommended the free «floating» of the Deutsche Mark for an indefinite period. The fifth — the Economic Institute of West Berlin — called for outright revaluation possibly preceded by an interim period of floating.

The report of the five institutes believed there were three major causes for the global upswing in inflation : (a) a sharpening of the fight to narrow the gap between the income groups, (b) increased demands by trade Unions to insure that employees obtain real income rises, and (c) a willingness by employers to pay higher wages and then offset the higher cost through raising prices.

Although these institutes are independent foundations, their ideas have been known to influence governmental policy. In the crisis of October they were among the advocates of the course of action the government followed(3).

The report of the five institutes, on the one hand inspiring government policy, on the other inspiring the enthusiasm of speculators who pressed the Deutsche Mark in foreign exchange markets, the publication of this annual joint report of the West German economic research institutes resulted in another outbreak of speculation. The Bundesbank was obliged to buy over $ 1,000 m. at the official floor price of DM 3.630 in a massive supporting operation. An unprecedented record was set early in May 5, 1971 with the exchange of another $ 1,000 m. in West Germany. This forced the Central Bank, backed by the government, to abandon support operations. Similar pressures in Switzerland, Holland, Belgium and Austria forced their central banks to follow likewise.

In view of the heavy speculation and the mounting domestic inflation, the West German government was faced with a num-

(1) Coupled with a low rate of growth of real GNP of 3.5 %, a rise in industrial unit production costs of 8%, and a rise in wages of 11% in the second half of this year.

(2) In Kiel, Hamburg, Munich and Essen.

(3) The Mark was briefly floated and then appreciated by 8.5%.

ber of alternative policy choices : a) Immediately revaluating the Deutsche Mark, b) Allowing the currency to float on its own accord in order to find a more realistic value in terms of the dollar, and c) Imposing severe foreign exchange controls.(1) The choice of policy had been complicated by a lack of agreement as to what should be done to curb inflation. Another complicating factor was the inability of West Germany to convince France of the need for a concerted move in the direction of greater exchange flexibility. This was at the same time that Germany was inhibited from acting unilaterally by the EEC policy of closer monetary integration.

The alternative of imposing statutory limitations on capital movements — though contrary to prominant German economic thinking — was known to have been under consideration.

Floating the Mark meant that the Bundesbank would withdraw its commitment to keep the mark pegged to its present parity of between 3.63 and 3.69 to the dollar. It would be left to float in foreign exchange markets until it reached whatever parity becomes established by supply and demand. At first this would mean an even greater inflow of dollars because of speculative desires to cash in on its expected rise in value. As the dollars enter in greater amounts and the floating rate rises, however, the exchange value of the dollars would decrease thus making it no longer profitable for speculators to sell dollars for marks thus, halting the dollar inflow.

E.—A unilateral action

Due to the lack of the European countries to reach a unified stand, specially within the E.E.C., with respect to the dollar, each country tried to advocate and later to adopt different policies consistent with its own conception of national self-interest.

The German government had decided to let the Mark float for an indefinite period beginning May 10, 1971. The Swiss government revalued the Franc upwards by 7 percent, while

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(1) A large dollar inflow leads to an increase in cash in circulation within Germany thus fueling its rate of inflation. German industrialists, however, contest at a free floating or revaluation of the Deutsche Mark because of the harmful effects on exports.

Austria revalued the shilling by 5.65 percent. The Netherlands decided also to float the guilder. In fact both Germany and the Netherlands pushed the European countries to float their currencies, particularly the Belgian Franc. The Netherlands definitely preferred the latter course because of their close trade relations with Belgium. The French government, however, did not alter its previous position in requesting a change in the price of gold to benefit from its gold reserves.

The decision of the different countries to revalue or to float their currencies, did have wide repercussions within each country, within the European Economic Community and on the international financial markets.

The business community in Austria believed that the rate of revaluation of the shilling was too high. They preferred a rise of 3 percent because of the effect on foreign trade. Austria exports about one third of its production, a substantial part of these exports go to North-America and Yugoslavia. It was feared that the higher export prices would affect the timber exports. Thus the government tried to overcome this problem by granting an export tax rebate to reduce the export tariffs and duties(1).

The situation in Switzerland was slightly different but basically the same. Some industries feared the long-term effect of the revaluation on the domestic economy. Some industries were bound, given the effect of higher export prices, to lose their foreign markets, specially these operating within extremely slim profit margins(2).

Concern for the floating of the D.M. and the guilder was expressed by the Vice-President of the Common Market's Executive Commission. He based his concern on the fact that if the member's currencies were allowed to float for too long, this would undermine not only the monetary union, but also the organization itself whose very existence presupposes fixed and stable exchange rates(3).

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(1) The Times, London, May 11, 1971.
(2) The Times, London, May 20, 1971.
(3) Speech by M. Raymond Barre at the European Parliament, Luxembourg, May 19, 1971.

On its first day of trading, the D.M. floated as high as 4.5 per cent above its former parity but closed at 3.5 per cent higher. The guilder moved in concert with the D.M., but its rise was modest. On the first day it rose by 3 per cent but ended the day with only 2.5 per cent higher than its parity.

In the following days both the D.M. and the guilder floated downwards. The Mark floated at around 2.5 per cent, while the guilder went down to 2 per cent. However, on May 21, the Mark floated upward again to its highest level since May 10, 1971, recording a rise in its parity of about 4.5 per cent to the dollar.

At that time, no one knew exactly the limits within which the German government would allow the Mark to float. However, it was widely believed that an upper limit close to 5 per cent was the maximum beyond which the Bundesbank would intervene to prevent further appreciation against the dollar [1].

In fact, the Budesbank did not intervene in the market right after the decision to float, although it held vast amounts of dollars (about 16 billions). However, the bank intervened later to insure the following objectives :

First : To discourage foreign holdings from coming to Germany. For this reason the bank ordered credit institutions to pay no interest on foreign holdings. In addition foreigners were not allowed to purchase any more interest bearing Treasury or money market notes. As an exception foreigners may hold cash in West Germany after receiving permission. This regulation however, did not apply to deposits exceeding 50 thousand D.M.

Second : To insure that the D.M. would float within reasonable but undeclared limits to other currencies, specially the E.E.C. currencies, so as to minimize the effect of floating on the internal financing of the Community.

However, weeks after the German government decided to float, several issues were still unsettled. Questions like how

(1) The Times, London, May 11, 1971.

long the Bundesbank would take to divest itself of its vast dollar holdings; how long the authorities would allow the D.M. to float; and, what measures would be adopted to ensure economic stability.

On the question of the time period, the Finance Minister declared that the final aim was to return the currency to its D.M. 3.66 parity against the dollar when the floating period ends. Thus there was no specific time period known to the public. However, it was reported that the Minister of Economics favored a long period of floating to strengthen the Mark, to cool the inflation, and at the same time to allow the Central Bank to sell some of its dollar holdings.

The Deutsche Mark came out of the crisis stronger than ever before. In fact, it is now considered to be at the same level as the other reserve currencies. This development left its mark on the future of the international monetary system.

II. The Second Stage

A.—Reaching the Critical Point

Traditionally the U.S. trade balance has been in surplus, with the range varying in recent years between 2 billion to 4 billion dollars a year. The trade surplus allowed for a reduction in the overall deficit of the U.S. balance of international payments. However, for the first time since 1897, the U.S. Department of Commerce estimated a deficit in the 1971 trade balance of about 2.1 billion dollars.

At the same time, the reserves of the Group of Ten increased by 4 billion dollars during the second quarter of 1971, with nearly half of this amount being accumulated by one country, namely Japan(1). In fact, the reserves of West Germany, which had risen by 6 billions over the year 1970, rose by a further 3 billions in the first quarter of 1971 and by yet another 2 billions in the first few days of May to reach 18.8 billions, nearly twice

(1) Excluding the U.S., but including Switzerland, World Financial Markets, Morgan guarantee Trust Company, N.Y., July 20, 1971.

as much as the U.S. reserves[1]. Thus, the forecast of the U.S. Department of Commerce, represented the last straw in a gloomy situation.

Other economic indicators gave a gloomy picture. The consumer price index was increasing, the rate of unemployment reached nearly 7 percent, the forecast of a balance of payments deficit of 11.3 billion dollars and a decline in the U.S. gold reserves to 10 billion dollars.

The orthodox solution to the U.S. deficit problem could have been achieved through restrictive monetary and budgetary policies and a reduction in money expenditures on goods and services. The deflation of demand would lead to a decrease in the rate of employment of both men and machines. However, no country in modern times is willing to achieve equilibrium through a slack in its economy.

In fact, the U.S. for years, expanded domestic demand to encourage growth and full employment, although it had a balance of payment deficit. However, given the degree of pressure that was building against the dollar in foreign exchange markets, it was inevitable that a major action would have to be taken by the American Government.

President Nixon, therefore, announced on August 15, 1971 his programme mentioned above to deal with domestic economic ills and the international position of the dollar. In the domestic arena, the programme included a 90 days freeze of all prices and wages, the creation of a cost of living council and a recommendation of a 15% tax credit on investment.

On the international front the President announced the temporary suspension of full convertibility of dollars into gold or other reserve assets, the imposition of a temporary surcharge on imports into the U.S. generally at a rate of 10%, and a ten per cent reduction in foreign economic aid[2].

The administration hoped that through the programme it would check inflation, give the economy incentives, and thus

(1) The Currency Crisis, The Banker, Volume 121, June 1971, page 583.

(2) Speech by the U.S. Deputy Under-Secretary of State to the G.A.T.T. Council, Geneva, August 21, 1971.

decrease the rate of unemployment. The programme would, in addition, help reduce the deficit in the balance of international payments, thus defending the international position of the dollar.

The Administration response, however, could have been different from the one actually decided on, and it could have been limited strictly in international matters. But as it was expressed by a leading American bank, 'The President seized upon the situation as an opportunity to do much more... and he did so in a manner clearly calculated to maximize the psychological dividends'(1).

Emphasis will be given in the following pages to the effects of these actions on international trade, as well as their far-reaching implications on the international financial system(2).

B.—The Effects on International Trade

Washington created the crisis in the first place, by its delay in acting at the right time. Even when it moved as late as August 1971 it took far-reaching steps.

The target of American policy was to offset the 13 billions a year deficit at the expense of everyone including its Western allies and the developing countries. To begin with, this figure was disputed. According to the I.M.F. and the O.E.C.D. the deficit was estimated at 10 billion dollars, of which a great part has been used over the past period to finance the war in Vietnam and American investments abroad.

In order to bridge this gap in its payments balance, the American government relied on drastic measures by imposing a 10% surcharge on imports from abroad, adopting a protectionist policy and reducing its aid to developing countries.

This inward-looking mood had brought back old memories of protectionist policies and trade restrictions adopted before the 1930s. Several writers were, in fact, speaking of the prevailing mood of protection in American foreign economic policy.

(1) The Morgan Guarantee Survey, Morgan Guarantee Trust Comp. N.Y., August, 1971.

(2) This part of the analysis was written before, for the Economic Bulletin, National Bank of Egypt, Vol. XXIV, No. 2, 1971.

No one would question the right and even the duty of any country, including the U.S.A., to overcome an imbalance in its balance of payments. As a leading world power and the champion of free trade since the 1930's however, the U.S. measures went further afield than the required remedies.

American officials had declared that the surcharge would not be lifted until several issues had been settled. High on the list were the reform of the Common Market's farm policy, the sharing of Nato costs and the foreign aid burden, the removal of non-tariff barriers which hamper American trade, and above all parity changes.

In a protectionist mood, the U.S. Senate passed on November 16, 1971 a resolution giving the President broad authority to declare a «balance of payments emergency» and to impose a surcharge of 15 percent instead of 10 percent. It also gave him power to impose quotas or total bans on any product imported in the U.S.

In fact the U.S. President went as far as invoking the Trading with the Enemy Act to limit textile imports from Japan on October 15th to the benefit of the large textile lobby of the South. Japan agreed to limit its exports of man-made textiles to the U.S. However, this action severe as it was, did not contribute much to the 10 billion dollars target. Rather it illustrates to what extent the Administration was willing to take severe measures to bring about such a shift in the dollar outflow.

The Administration's own studies also showed that if all existing quantitative import restrictions and discrimination by Western Europe, Japan and Canada regarding agricultural and industrial products were to be lifted, the benefit for American exports would be less than 500 million dollars a year [1]. The U.S. would, thus, still be left with 96% of the imbalance uncovered.

What was dangerous was the belief held in both Western Europe and especially in the U.S. that time is on their side. While the U.S. was overestimating its bargaining strength, the Western European countries were taking countervailing measures, until the pattern of conflict was fixed. Thus :

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(1) Reported by International Herald Tribune, September 27, 1971.

1 — West Germany intervened in the exchange market at the end of September 1971 to hold the upward float of the mark. In fact most of America's «trading partners have put a lid on the upvaluation of their currencies until Mr. Conally negotiates»;

2 — Members of the Common Market and Japan were preparing to follow the Canadians in subsidizing their exports to overcome the surcharge barriers, and,

3 — Some countries, like Denmark, had taken counter-measures to restrict American imports to their markets.

C.—The Financial Aspects of the Problem.

Theoretically, the U.S. dollar was convertible into gold. In actual practice, however, this general rule was subject to several limitations :

1 — By a limited convertibility of the two-tier gold price system which was declared in 1968;

2 — By more than a three to one ratio of the claims against the available gold stock in the U.S., and,

3 — Most important, by the pressures of all kind applied to foreign authorities when they demand gold. But pressure and persuasion do not always work, as evident during the era of General De Gaulle.

The full convertibility of the dollar has, thus, been turned in actual practice into a limited convertibility. This fact, simple as it was, was not acknowledged by the U.S. except quite lately.

Every time there was a currency crisis, different voices were raised to give advice ranging from a dollar devaluation to a re-evaluation by other countries. The U.S. authorities, however, were not willing to hear anything about a dollar devaluation, even during the present monetary crisis.

The only official body which acknowledged this fact was the Sub-Committee on International Exchange and Payments of the U.S. Congress. In a report issued in the summer of 1971, the Committee accepted the fact that the dollar is over-valued and should be revalued.

Furthermore, some American experts like Edward Bernstein called for a devaluation of 7 to 8 percent while the major Western European Countries should upvalue their currencies by a similar amount[1].

D.—A de facto Devaluation.

The fact that U.S. Government assets have declined to only 10 billion dollars hanged like the sword of Damocles on the role of the dollar in any future monetary arrangements. The persisting imbalance in the U.S. balance of payments casted more than a doubt about the future of the dollar. Given these circumstances, it was natural from the American point of view to close the gold window and stop the convertibility of dollars into gold.

The world was shocked by this action and the European countries were astonished, not only by the closing of the gold window which, from their point of view, was an unnecessary step, but also by the severity of the measures taken to bridge the deficit of the balance of payments.

One trade aspect of three measures, namely the 10% surcharge, was a completely unusual step taken against their trade and economic interests. It meant in actual practice a de facto devaluation of the dollar.

Thus, the international monetary system has been radically altered. The days of the dollar based on gold have gone like those of the old gold standard. It was up to the world monetary authorities to choose between two different alternatives : the first, to keep the basic stretch within the existing system while giving temporary relief from the different symptoms ; the second was to come to grips, with the basic problem and try to solve it through multilateral action.

The European countries plus Japan believed, as a matter of principle, that the U.S. should make a contribution first, and that the requested rate of re-evaluation is enormously high. Every country had, thus, embarked on a unilateral action to defend its economic interests. The result has been a general float

(1) Statement before the Congressional Committee U.S. Congress, Sept. 1, 1971.

for their currencies. In fact, Germany, the Netherlands, Belgium, Italy, Britain and the three Scandinavian countries had established free exchange markets for commercial transactions.

The British government let the pound float at the end of August 1971. To the surprise of several financial experts, the rate of fluctuation was not violent. As a result, the pound reached a de facto upvaluation of about 3 percent above its parity of 2.40 dollars.

The French financial authorities decided to float the franc against the dollar for capital transactions only, leaving trade transactions to the fixed parity. By holding to its official dollar parity the franc benefited more than 8 percent against the mark and 5 percent against the guilder compared to the previous rate in May 1971. France accepted to float for capital transactions, only because it was to its comparative advantage. Among the European countries, France was the least willing to foot the U.S. bill.

The Benelux countries, however, started an interesting experiment by keeping their currencies in fixed parities to each other, while allowing them to float against the dollar. Technically the joint float was based on a "private rate" which was the rate prevailing before the guilder floated in May 1971. As put by the Economist, the effect has been to drag the dollar and pull up the franc[1].

The I.M.F. and the Crisis

The International Monetary Fund (I.M.F.) is traditionally aginst freely floating exchange rates mainly because it is its function to police fixed rates. When the European countries floated their currencies and the U.S. closed the gold window in August 15, 1971, the I.M.F. was in a difficult situation.

To deal with this serious situation, the Managing Director of the Fund, Mr. Prime-Pall Schweitzer ruled out in August 1971 a rise in the official price of gold as insufficient step to restore

(1) The Economist, London, August 28, 1971.

a realistic parity between the dollar and other currencies. Furthermore, he called on the U.S. for a formal devaluation of the dollar against gold.

The fund started on calculations, the figures that news reported in September, 1971 reflected that the dollar should be devalued by 3 to 5 percent and other currencies should be revalued : the yen by 15.2 percent, the deutsche mark by 12.3 percent, the Canadian dollar by 11.3 percent and the Pound Sterling by 7.2 percent[1].

The effect of this uncomformed reports put pressure on the foreign exchange market. Thus the D.M. and Sterling climbed further. The climb in the D.M. was equivalent to a re-evaluation of 10 percent on its pre-float parity and in the case of Sterling a revaluation of 3.5 percent.[2]

The American decision of August 15, 1971 to suspend the convertibility between the dollar and gold created a serious clash between the U.S. government on one hand and the I.M.F. staff, and member countries on the other[3].

Before August 15, 1971, debtor countries used to buy with their dollars other hard currencies from the U.S. to repay their debts to the Fund. However, because the U.S. was in a small net debtor position in the Fund, it resisted along with the Fund, accepting dollars in repayment of debts. Thus, if these countries were to use their dollar to buy other hard currencies like the D.M. or the guilder in the foreign exchange market this would put unwelcomed pressure on Germany or the Netherland to accumulate additional amounts of dollars.

To solve this technical problem, the I.M.F. thought during the interim period of August 15, to December 1971 of allowing debtor countries to buy usable currencies in amounts equal to new drawings of those currencies from the Fund by other countries to pay their debts.

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(1) Reported by Kyodo news service of Japan on Sept. 23, 1971, as a proposal made by Mr. Schweitzer at the recent Group of Ten meeting in London.

(2) The Times, Sept. 2, 1971.

(3) Edwin L. Dale Jr., I.H.T., November 23, 1971.

During the I.M.F. annual meeting in Washington D.C. a resolution was passed calling on the 118 member countries to collaborate in establishing satisfactory changes in currency values as promptly as possible. In particular, the resolution called for :

A. "Establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members, together with the reduction of restrictive trade and exchange practices ; and

B. Facilitate resumption of the orderly conduct of the operations of the fund."(1)

Thus, while the I.M.F. called for a satisfactory structure of exchange rates, in particular, it called on all members, specially the U.S., for a reduction of restrictive trade and exchange practices.

In the meantime, the financial experts proposed a change in the basic rules of the I.M.F. to change the margin of fluctuation from 1 percent to about $2^1/_2$ or 3 percent to cope with unforeseen circumstances.

(1) Resolution adopted on October 1, 1971.

APPROACHES FOR MARKETING SYSTEMS DEVELOPMENT

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A number of recent works in marketing literature have been concerned with marketing systems development. Each author has used his own approach and, consequently, no consistent approach or method of analysis has been offered. The purpose of this paper is to synthesize the different approaches into four major alternatives namely, historical, stage, institutional, and market structure approach.

Historical approach : The experience of the development of marketing systems in developed countries, especially of the United States, has been taken as an example for those who advocate the historical approach. The approach discusses the development of marketing within successive periods in the history of a country.

Stern mentioned that the study of marketing history may not only supply a rationale for current activities, but may be used in conjunction with other knowledge accumulated in a study of quantitative, economic, and behavioral information to aid in planning marketing action[1]. In this interdisciplinary sense, Stern added that :

> Although there are no laws in history — history may or may not repeat itself. I think that the tendencies of social and economic evolution as manifested in the past will in some like form prevail in the future. Study of the past may help the shape of things to come[2].

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(1) Louis Stern, «Pragmatism and Marketing History», American Marketing Association Proceedings (Fall, 1963), p. 326.

(2) Ibid, p. 329.

Williamson advocated the historical approach because it can provide students and teachers with a sense of time perspective. He also expressed concern about the lack of information on the evolution of marketing generally and in the U.S. particularly during the nineteenth century(3).

Marketing literature is rich with examples concerning the historical approach. For the purpose of analysis the writings of Smalley, Coolsen, and Miller are examined.

Myers and Smalley, as participants, wrote a report on two conferences, one in Toronto and the other in Chicago, concerning the need for a history of marketing in the United States.

The aim of the conference in Toronto was toward the formulation of hypotheses concerning marketing in the United States which could be tested by a systematized program of analysis and research. Substantive investigations concerning the course of marketing evolution would then result(4).

Among the issues raised in that convention was the following :

> Can attention to the role of marketing assist us to understand more clearly and predict more accurately when a given society is ready for change, and what type of change — economic, political, and social — it is prepared to accept ? Would such a history — a history of marketing in the U.S. — be useful in suggesting ways of bypassing certain stages in development and thus accelerate progress in underdeveloped areas(5) ?

Dr. Burleigh Gardner noted that attention should be given to different cultural patterns, and the stage of development in

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(3) Harold F. Williamson, «Application of Historical Analysis to Marketing», American Marketing Association Proceedings (Fall 1963), p. [illegible]

(4) H. Myers, Jr., and Orange A. Smalley, «Marketing History and Economic Development», Business History Review, Vol. XXXIII, No. 3 (August, 1959), p. [illegible]

(5) Ibid., p. [illegible]

other areas(6) while Westfall suggested improving transportation and communication as basic prerequisites for marketing development(7). Dr. Kenneth Myers added that any society is prepared for some improvement in marketing attitudes and techniques at any point of time. The question is concerned with which improvement(8).

The conclusion rested on the establishment of a centre for marketing interdisciplinary lines. The purpose of the centre would be to facilitate and focus the research efforts of scholars interested in furthering the understanding of the role of marketing in the United States and its social, political and economic implications both at home and abroad(9).

Coolsen attempted to throw some light on the history of marketing development in the United States in the late nineteenth century in a way to show how such analysis could help the developing countries now.

Export in the United States in the nineteenth century provided means of importing higher standards, while the industrial production in 1870 created a domestic market which was a major factor for economic development.

Coolsen also illustrated that the problems of marketing were first concerned with agriculture, and then with manufactured goods(10).

Coolsen showed the interrelationship between the changes in social economic conditions and marketing development. He emphasized the importance of transportation and communication systems on agriculture marketing. He also explained the type of wholesalers and retailers existing in that period. He showed that changing in marketing had contributed to the expansion of

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(6) Ibid., p. 292.

(7) Ibid., p. 391.

(8) Ibid., p. 294.

(9) Ibid., p. 293.

(10) Frank Coolsen, «Marketing and Economic Development», American Marketing Association Proceedings (Fall, 1962).

demand and the development of productive entrepreneurial leadership[11]. He concluded that :

> The task is to develop a body of hypotheses through historical and comparative analysis that will lead to useful theories or ideas concerning what to expect and what to do at various stages of market and marketing development[12].

Miller's approach classified marketing development into four ecological eras. The location of different eras is a key concept in his classification. These areas are the local production era, the regional wholesaling era, the central city retailing era, and the suburban retailing era. His ecological eras were selected in accordance with the aspects of concentrations of marketing, demographic, physiographic, and distributional characteristics[13]. For each era there is a technological stimuli and a primary marketing challenge.

(a) The local production era, 1810 to 1880. This period was an evolutionary rather than revolutionary technological change. In this era industry lagged behind agriculture and the distribution of farm and mill products was the primary challenge to marketing.

As consumers were increasing in number, mobility, and concentration, increasing buying power led to the emergence of wholesaling and retailing as a separate genera; retailing took the shape of saloons, dry goods stores, hardware, and furniture stores, while wholesaling was of the commission merchant type[14].

(b) The regional wholesaling era, 1850 to 1910. The technological stimuli of that period were the steam locomotive, the telegraph, the postal service, the corporate form of business, commercial banking. Such factors caused revolutionary changes in transportation, storage, and communication[15].

The marketing challenge during that era was the distribution of the increasing output of goods. In this era there was a con-

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(11) Ibid., p. 34.
(12) Ibid., p. 37.
(13) Miller, op. cit.,
(14) Ibid., p. 209.
(15) Ibid.

centration of consumers, and specialization in retailing and wholesaling. In wholesaling, the service wholesaler and specialized commodity exchange were established. Department stores, mailorder houses, and variety stores emerged during this era.

(c) The central city retailing era, 1910 to 1940. Electricity, the auto industry, the radio, credit services, and central banking were the technological factors that influenced marketing development in this era. This era is characterized by concentration in metropolitan areas, and of intense demographic and physiographic mobility. The challenge to marketing was one of specialization in accordance with demographic characteristics rather than physiographic factors[16].

Large scale consumer-oriented markets characterized retailing and the rise of vertically integrated distributional channels[17].

(d) The suburban retailing era, 1940 to 1960. Miller characterized this era as being of rapid technological change in the marketing movement media, and high turnover rates within demographic, physiographic and distributional mobility. Consumers moved to suburbs, new products came to market. New distributional firms were the major characteristics of this period[18]. There was vertical as well as horizontal interaction among distribution channels, which, as he mentioned, led to the emergence of the discount store.

Stage approach: The stage approach for marketing development recently has attracted the attention of marketing writers. Historical economic stages of development, or new stage for marketing are the sources of this approach.

The German historical school of thought was responsible for giving increased attention to historical stages. Friedrich List classified economic development into five stages : Savage, Pastoral, Agricultural, Manufacturing and Agricultural, Manufacturing and Commercial[19].

(16) Ibid., p. 210.
(17) Ibid.
(18) Ibid.
(19) Friedrich List, The National System of Political Economy (London, New York; Longmans, Green, and Co., 1904).

Zarl Bucher had a three-stage approach. The first, the household produce for his own. The second activity, concentrate in independent market towns, and in the third stage, the middlemen dominate[20]. Now there is Rostow's approach of stages[21].

Among the scholars in marketing who wrote on the development of marketing to the stage approach are Dichter, Solomon, Goldman and Capulsky.

The key to Dichter's classification is the world customer. He related consumer revolutions to the revolution of the middle class, and concentrated on society's attitude toward car ownership. His classification includes six groups of consumers[22].

(a) The almost classless society. In this group we would include the Scandinavian countries. The middle class takes up all of the scale with few groups being really poor or rich[23].

(b) The affluent countries. In this group few people starve and still there is room at the top. This is like the U.S.A., Western Germany, Holland, and Canada[24].

(c) Countries in transition. These countries have a working class similar to that of the nineteenth century. But this working class is trying to become middle class. A social revolution has not yet come to these countries and an upper class enjoys many privileges. England, France, Australia, South Africa, and Japan are included in this stage[25].

(d) Revolutionary countries. These countries include a large number of people just emerging from near starvation. The

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(20) Karl Bucher, Industrial Evolution (New York : N. Holt and Co., 1901), p. 89.

(21) For more on the stage approach see : C.R. Fay, «Stages in Economic History in English», Cambridge, 1940 ; N.S.R. Gras, «Stages in Economic History», Journal of Economics and Business History (November, 1930); F.L. Nussbaum, A History of Economic Institutions of Modern Europe : An Introduction to Der Modern Kapitalism of Werner Sombart (New York : F.S. Crofts and Co., 1933).

(22) Ernest Dichter, «The World Consumer», Harvard Business Review, Vol XXXX (July-August, 1962), pp. 113 - 123.

(23) Ibid., p. 119.

(24) Ibid.

(25) Ibid.

middle class is small and there are outstandingly wealthy people. There are a number of poor people who will have a higher standard of living with the development of industrialization. An illustration of this group of countries is Venezuela, Mexico, Brazil, Spain, India, and China[26].

(e) Primitive countries. This group has a small number of wealthy people, and foreign businessmen, new political leaders, and foreign administrators. The remainder of the population is poor, illiterate, living in a free consumer stage by barter and self-sufficiency. This includes the new independent countries of Africa and the remaining colonies[27].

(f) The new class society. The Soviet Union and Socialist countries represent this new class society through the existence of a class of bureaucrats. The rest of the society are low middle class people. There is no extremely low middle class in these countries, according to Dichter.

Based on the development of marketing in the Soviet Union, Goldman classified marketing development into two stages[28]. In the first stage, when agriculture is the dominant economic activity and the standard of living is quite low, retailing and wholesaling are the characteristic marketing agencies. In this first stage efforts are made for achieving efficiency and reducing cost within the distribution sector of the economy.

The second stage of marketing development emerges with changes in supply and demand of the economy. On the supply side, industrialization takes an important role in the economy, and on the demand side consumers begin to have surplus income[29]. This stage is characterized by the development of a buyer's market which replaces the seller's market in the first stage. Marketing practices and techniques in the second stage adapt themselves to capitalisitc marketing techniques in relation to promotional activities and product differentiation[30].

(26) Ibid., p. 121.
(27) Ibid.
(28) Marshall J. Goldman, **Soviet Marketing : Distribution in a Controlled Economy** (New York : The Free Press of Glencoe, 1962).
(29) Ibid., p. 191.
(30) Ibid., pp. 191 - 198.

Goldman's analysis shows that social and economic changes in supply and demand are reflected by industrialization on the one hand and quantity purchasing power on the other hand and are basic to the development of marketing.

Solomon's approach is based on similarities in marketing within a number of densely populated underdeveloped economies in the area of the Middle East, Southeastern Europe, India, and China. The approach is a comparative approach concerning underdeveloped countries. Among the purposes of the study he stated : «The extent to which the existing market structure is the inevitable product of a certain stage of economic development»(31).

Solomon classified his analysis into personal services, perishable produce, agricultural staples, manufactured consumer's goods, and capital goods. He stated that there is a similarity existing among these areas regarding the practices and the structure of marketing.

His approach essentially is based on one stage of development as a method of finding similarities among countries within a certain stage of economic development.

Capulsky stated :

> Among nations there are different stages of commerical development. Within any nation, there are similar differences among economic sectors. There are many alternative classifications of stages of marketing development(32).

Capulsky classified marketing development into six stages : preindustrial, primary manufacturing and exports, non-durable consumer finished goods, capital goods, consumer-durable and related intermediate products, and export of manufactured goods. His classification takes the type of products as the «basic factor in each stage of marketing development».

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(31) Morton R. Solomon, «The Structure of the Market in Underdeveloped Economies», Quarterly Journal of Economics, Vol. LXII (August 1948), pp. 519 - 537.

(32) William Capulsky, «Forecasting Sales in Underdeveloped Countries». Journal of Marketing (July, 1959), pp. 36 - 40.

Institutional approach : The third approach for marketing development is the institutional approach. Marketing institutions are the focus for the change and development. In this section the writings of McCarthy and Morgan are used as representatives of this approach.

Effective marketing institutions for E.J. McCarthy are the major aspect that enables the producers and the economy as a whole to evolve to a higher stage of development[33].

McCarthy criticized the production-oriented approach as follows : «Marketing is treated only as an aspect of production process, when it may be more correct to think of production as only an aspect of the marketing process»[34].

He explained that the reason why marketing institutions are misunderstood is because they are lumped together as middlemen[35].

His approach is based on classifying the producer stages of economic evolution and then prescribing the suitable type of marketing institutions needed for every stage as follows :

(a) Self-sufficient firms. These are family type with no surplus to be marketed. They have no interest in trading with others. No marketing institutions exist in this stage[36].

(b) Self-sufficient with occasional surplus. These family type firms sometimes have a surplus. The critical function for them is buying and selling. The suitable institution is either local markets or fairs to help farmers make the exchange. The institution is helpful, not vital[37].

(c) Production-oriented firms. The family-owned firms have tended to specialize in one crop. Here handicraft and cottage industries exist. In some countries there is noticeable specialization in food production and the textile industry.

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(33) Jerome McCarthy, «Effective Marketing Institutions for Economic Development», American Marketing Association Proceedings (Fall, 1963), p. 393.

(34) Ibid.,p. 395.

(35) Ibid.

(36) Ibid., p. 396.

(37) Ibid., p. 397.

The producers depend largely on others to market their products. As to marketing suitable institutions, they can be described as traders and merchant types. Such middlemen are vital to the development of production-oriented firms, especially those producing homogeneous products[38].

(d) Market-oriented independent firms. In this stage producers try to develop a marketing mix to satisfy a specific market. The use of marketing research is essential to satisfy consumers better. The type of institutions needed in this stage is similar to that existing in the preceding stage. Moreover, consumer services and problem solving are expected to be provided by marketing institutions[39].

(e) Market-oriented integrated firms. The difference between this stage and the previous one is that marketing functions provided by independent middlemen are taken over by the producer. The marketing institution is the firm itself. This stage depends on marketing research, product and market planning, sales analysis in order to satisfy certain types of customers[40].

Morgan stated that the retail market structure is a function of the level of economic development. Among his findings he stated that :

> Social-economic aspects of population which vary systematically with economic growth are shown to be prime determinants of the number of retail stores in retail products markets[41].

Morgan used an index showing concentrates of retail stores which suggested the following :

a) High income regions have a higher level of retail industry concentration than do low income regions.

b) As the economy within a region grows, concentration of total retail trade increases, but concentration increases faster for food.

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(38) Ibid., p. 301.
(39) Ibid., p. 402.
(40) Ibid., p. 401.
(41) Howard E. Morgan, «Retail Market Structure and Economic Growth» (unpublished Ph. D. dissertation, University of California, Berkeley, 1963).

c) Pressure of small retailers may limit concentration[42].

On the consumer side, Morgan said that with economic development which is associated with growth in the size and density of population, urbanization, and social homogeneity, it is probable that these factors tend to lower the ratio between store to population in respect to food and necessity stores and increase the ratio for services and luxury commodities. He added that such changes create favorable conditions for the development of large retailing.[43]

Hess and Cateora stress the evolutionary nature of the marketing institution as the economy develops. Evolution necessarily results from the new level of development, which is created[44].

They classified economic development into three stages, agricultural and raw material, manufacturing, and marketing and divided every stage into two substages. Their approach indicated the type of industry, marketing functions, marketing institution, channels central primary orientation, and resources employed for each of the six substages. Table 2-1 shows their approach. This approach combines between economic stages and marketing institution and functions matching them.

Market structure approach. Market structure analysis and economic development have long been a topic research and investigation among agricultural economists. It took the meaning of marketing channels and facilities, geographic and temporal price relationships, and values of the elasticity coefficients in agricultural markets.[45]. Folz said :

> Structural research involves more and more understanding and treatment of the market as a whole. Analysis of market struc-

(42) Ibid., p. 353.

(43) Ibid., p. 343

(44) Hess and Cateora, op. cit. p. 171.

(45) Robert L. Clodius and Willard Mueller, "Market Structure as an Orientation for Research in Agricultural Economics," Journal of Farm Economics, Vol. XLIII (August, 1961), p. 515. (A comprehensive article about the subject and includes an annotated bibliography).

TABLE 2 - 1

Evolution of the Marketing Process

Stage	Sub-Stage	Examples	Marketing Functions	Marketing Institutions
Agricultural and raw materials (Mk (t) Prod). 1	Self-sufficient	Nomad's or hunting tribes	None	None
	Surplus commodity producer	Agricultural economy-i.e. coffee, bananas	Exchange	Small-scale merchants, traders, fairs
Manufacturing (Mk (t) Prod)	Small-scale	Cottage industry	Exchange Physical distribution	Merchants, wholesalers, export-import
	Mass production	US economy from 1885 - 1914	Demand creation Physical distribution	Merchants, wholesalers, traders and specialized institutions

TABLE 2 - 1 (continued)

Stage	Sub-Stage	Examples	Marketing Functions	Marketing Institutions
Marketing (Prod. (f) + Mk.)	Commercial-transition	US economy from 1915 - 1929	Demand creation Physical distribution Market information	Large-scale and chain retailers Increase in specialized middlemen
	Mass distribution	US economy from 1950 to present	Demand creation Physical distribution Market information Market and product planning, development	Integrated channels of distribution. Increase in specialized middlemen

Source : John M. Hess and Philip R. Cateora, International Marketing (Homewood, Illinois : Richard D. Irwin, Inc., 1966), p. 172.

TABLE 2 - 1 (continued)

Channel Control	Primary Orientation	Resources Employed	Comments
Traditional authority	Subsistence	Labor Land	Labor intensive No organized markets
Traditional authority	Entrepreneurial Commercial	Labor Land	Labor and Land intensive Product specialization Local Markets
Middlemen	Entrepreneurial Financial	Labor Land Technology Transportation	Labor intensive Product standardization and grading Regional and export markets
Producer	Production and finance	Labor Land Technology Transportation Capital	Capital^{+} intensive Product differentiation National, regional and export markets
Producer	Entrepreneurial Commercial	Labor Land Technology Transportation Capital Communication	Capital intensive Changes in structure of distribution National, regional, and export markets
Producer Retailer	Marketing	Labor Land Technology Transportation Capital Communication	Capital and land intensive Rapid product innovation National, regional, and export markets

> tures will not have theoretical and statistical tools readily at hand. Greater dependence will be upon the researcher's ingenuity and adaptability in applying at the time such studies are made. Good market researchers will have to know more about market agents and the market researcher will not be adequately trained if all he has by way of preparation is a knowledge of economic theory and a few sophisticated econometric models to apply. He must also have a broad knowledge and experience in all aspects of marketing.(46)

Writers on market structure. Clodius and Mueller differentiated among market structure, market conduct, and marketing performance. Market structure consists of the organizational characteristics which determine the relations of sellers in the market to each other, of buyers in the market to each other, and of sellers established in the market to other actual or potential supplies of goods.(47) Market conduct was defined as the pattern of behavior which enterprises follow in adapting or adjusting to the markets. Market performance referred to the economic results that follow from the industry as an aggregate of firms.(48) The writers explored the different aspects for research concerning market structure, and its relation to changes in technological, economic factors, barriers to enter, integration, merger, legal features and others.

Relating market structure to economic development in underdeveloped countries, Mueller stressed that market structure analysis is an underdeveloped tool of economic growth theory. He classified his analyses into (1) wholesale and retail markets for food, (2) manufactured goods markets, (3) export and import

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(46) William E. Folz, "Some Factors Inducing Changes in Marketing Cost, Structure, and Practices," Agricultural Marketing Research in the West, Report No. 1. Western Agricultural Research Council, Committee on Agricultural Marketing Research (December, 1957), p. 540.

(47) Clodius and Mueller, Op. Cit., p. 510.

(48) Ibid., p. 517.

markets, and (4) the money market.[49] He added that anyone who believes that there is a relationship between market structure and economic performance, progress, and development will be particularly interested in the implications of these structures.[50] He concluded that because of the small amount of empirical work on the market structure of underdeveloped countries that had been done, he would heartily commend this area to marketing economists.[51]

Evaluation. The approaches discussed in this section attempt to relate the development of a whole country to the development of markets and marketing. The historical approach seems to be promising if a comparative study takes place and some generalization can be made in the evaluation of market and marketing system can be developed among different countries or regions. Such was the aim of Myers, Smalley, and the suggestion of Coolsen. Miller's study is significant because it relates the development of marketing in its successive historical eras to a sound theoretical basis for marketing development, the ecological adaptation of marketing.

As for the stage approach, either taking economic stages or building marketing stages of development, it has the advantages of being a device to compress description of economic changes into a few, neat compartments.

Dichter uses his concept of social classes as a basis for different stages of development. Goldman has two stages, within one country, the Soviet Union. Solomon has one stage which is that of underdeveloped countries. Capulsky's approach included six stages based on type of production. These divisions call for a systematization which is needed in the field to have a clear-cut, logical, and applicable classification that is necessary for understanding the development of marketing. It is suggested that if Solomon's approach is used as a basis to compare developed, semi-developed and underdeveloped countries in re-

(49) Willard F. Mueller, "Some Market Structure Considerations in Economic Development," Journal of Farm Economics (May, 1959), p. 414.

(50) Ibid., p. 423.

(51) Ibid., p. 425.

gard to marketing development, it would be a step toward a better stage approach. In addition, this approach tends to be descriptive and not analytical since it does not show the mechanism of moving from one stage to another[52]. Also, little is done to show the forces which create the change from one stage to another. This approach is promising, but is in need of further research.

As for the institutional approach, McCarthy's attempt to match the stage of producers development with the suitable institution's is a valuable attempt and a practical way to show the contribution as well as the development of marketing from the point of view of institution structure. More concrete was the study of Morgan which selected retailing and related it to economic development. The variable selected and his analysis is a worthy attempt at explaining the development of marketing. Hess and Cateoria's approach combined external environment with institutional development. All writers used the economic-social environment as basic criteria for their analysis of the development of marketing institutions. However, the approach from the side of the institutions needed requires research on both the functions and structure of institutions. It needs also to focus on the size, type, and number of institutions and their relation to development.

As for the market structure approach, it is characterized by its similarity to the institutional approach once market structure is taken to mean channels of distribution. The need to define the market as being the consumer's requires that the market structure approach look for the demographic point of the market, the consumer, since he is the focus of all marketing activities.

(52) Ibid. p. 38.

LAND TENURE LEGISLATION FOR DESERT DEVELOPMENT IN THE A.R.E.

Dr. ABDUL SAHIB ALWAN

1 — *Historical Background* :

The increased activities of the A.R.E. Government in reclaiming and developing uncultivated lands in the Nile Valley and desert lands outside the Valley, necessitated amendment of the existing legislation or enactment of new ones to deal with the tenure and settlement problems of new lands.

Prior to 1958, there was actually no legislation dealing explicitly with land tenure and land use in desert areas. However, during the last century, some Decrees (Supreme orders) concerning desert lands were issued during the reign of the Khedewys who were then ruling over the Country. Some of these Decrees provided for granting Bedouins (Arabs of the Desert) the right to exploit desert lands through cultivation and grazing. Amongst various supreme orders concerning land property, the two most important ones, were the Supreme Order of 21st May 1867 and that of 9th September 1884. According to these two Supreme Orders, the ownership of State fallow lands was subject to prior permission and approval of the Government through a prescribed procedure.

Even the Egyptian Civil Law did not deal explicitly with ownership rights in desert areas. Under the old Egyptian Civil Law, the interpretation in Jurisprudence and court judgements had been directed to consider desert lands situated outside the *Zimam* (cultivated districts of the Delta and the Nile Valley) as Matrouka (abandoned) lands, ownership rights on which could be acquired through cultivation, plantation or construction of a building. This interpretation was based on Article 57 of the Ahli (National) Egyptian Civil Law, which provided that «as regards the uncultivated land lawfully owned by the Miri (Government), nobody shall lay his hand thereupon (hold) except by Government permission...... But any person who had cultivated any of the said lands, or planted or put up a building threupon, becomes the owner of that land in absolute property; but he shall forfeit his right if he does not use the land for a period of five years during the fifteen years following the date on which he has laid his hand upon (held) that land.

Such had been the case until the year 1940 when the Military Order No. 62 of 1940 was issued to deal with land possession and ownership in Frontier Districts.

However, when the Martial Law, under which such Order was issued was abrogated, the same provision was enforced by Order in Council (Décret-Loi) No. 111 of 1945. Under this Decree, however, foreigners were prohibited from possessing, except by inheritance, lands in the Frontier Districts, or from acquiring any real estates rights thereon. It also stipulated that Egyptians must obtain in advance a permission from the Government with regard to the lands they possess by any means other than inheritance, and to the real estate rights they have. It was also stipulated that «any property transfer and any establishment of any real estate rights contrary to the provision of the Military Order shall be nul and void», and that the status quo remain unchanged for proprietors....»

In 1948, the new Egyptian Civil Law was issued. Article 874 of the said Law provides that «Uncultivated lands with no owners shall be the property of the State, and no person can possess these lands or lay his hand thereon (hold) except by permission from the State according to the regulations in force, but if an Egyptian citizen cultivates these lands, plants trees or builds thereon, he shall immediately possess the cultivated, planted or built part even without permission from the State; but he shall lose the property if he does not use the land five consecutive years during the fifteen years following the date of possession.»

2 — *Recent Legislation* :

To accelerate the development of desert areas and the settlement of Bedouins thereon, the need for a special legislation was felt. This was done in 1958 when a special Law governing possession and ownership of desert lands was issued (Law No. 124 of 1958). In its Explanatory Note, reference was made to the «argument which has been raised regarding Article 874 of the Civil Law of 1948 which provides for land ownership by free acquisition......». Heated debates followed specially as to whether this article abolished the Order in Council (Décret — Loi) No. 111 of 1945 or not. There were two contradictory views, one saying that article 874 of the New Civil Law of 1948 has in fact abolished the Décret-Loi of 1945 for the main reason that this article followed the issuance of the said Décret-Loi whereas the other view holds to the contrary that the said Décret-Loi concerns the desert land property while the new Civil Law deals with land property in general and, therefore, the Décret-Loi remains in force as a special legislation.

The Explanatory Note of the 1958 Law adopted the view contained in the Décret-Loi of 1945, and accordingly it has disregarded the rights supported by Article 874 of the Civil Law of 1948. Thus the 1958 law denied the real estate properties rights established in desert lands even if these rights were established prior to the enforcement date of Law No. 124 of 1958.

2.1 *Property rights under Law 124 of 1958*

The recognition of property rights previous to the enforcement date of the 1958 Law was, according to Article 5, restricted to the cases where the property rights were supported by registered deeds and/or final judgements established prior to the enforcement date of the Law, or by certificates issued by the Government and had not yet been registered......

The application of the said law has unveiled certain deficiency and created feelings of insecurity and anxiety in the minds of the inhabitants of desert areas regarding non-recognition of their land properties which had been supported by Article 874 of the New National Civil Law, which had been in force since 1883. The 1958 Law and Article 57 of the old Civil Law provided for the alienation and lease of desert lands to any tribesmen who had occupied a piece of land by orchard or building before August 1957 against payment of one-tenth of the value of land at delivery and the rest to be paid in instalments over a period of 30 years. Occupants of desert lands adjacent to cities applied for purchase of lands in accordance with the provisions of this Law. But the bedouins, who are the traditional occupants of these desert lands, were reluctant to apply as they resented the idea of applying for the purchase of land which they believed to have possessed and utilized for many generations. However, upon the initiative and the efforts of the E.G.D.D.O.(1) and through its technical and material assistance to the bedouins for cultivating their lands and establishing fruit tree and olive orchards, some bedouins were induced to apply for the alienation of pieces of lands which they had developed, or were developing them into orchards. They thus were able to obtain some assistance from E.G.D.D.O. in the form of windmills to be installed on their wells and to get seedlings of olives and other trees to be planted in their orchards. This is besides the technical assistance extended to them and the establishment of cooperative societies for the distribution of WFP(2) aids in food and fodder to serve their living and production requisites. In spite of all these inducements, few bedouin families applied for the alienation of their lands or purchase of land in accordance with the provisions of the 1958 Law. At present, however, it is difficult to assess the progress of registration of titles made under the 1958 Law; the number of cases registered till to date and the area affected is indicated in the following table.

Table 1 Showing the number of bedouin families in the Western Desert to whom land was alienated in accordance with the provisions of the 1958 Law.

Type of Tenure	Number of Beneficiaries	Area in feddans
Land sold and alienated to customary holders (1960-1961)	549	2251
Lands sold and alienated to leasees	324	2433
Alienated reclaimed lands with windmills	558	4715
Total	1431	9399

(1) The Egyptian General Desert Development Organization.

(2) World Food Programme of the United Nations.

In fact, many difficulties and obstacles have been encountered in the application of the 1958 Law mainly because the provisions of the said law were not based on thorough understanding of the socio-economic conditions affecting the life of the inhabitants of desert areas. It has already been mentioned that the application of this Law in some desert areas has caused many worries and much anxiety to the tribesmen in these regions. There were some provisions in the Law which proved to be difficult to apply without major revision and amendments. The Government, therefore, had come to the conclusion that Law No. 124 of 1958 should be amended to ensure due support to the legitimate rights of tribesmen and to ensure the recognition of their property rights which had been established before the enforcement date of this Law(3).

2.2 Law No. 100 of 1964

Accordingly, a new Law (law No. 100 of 1964) was promulgated to regulate the land tenure arrangements in all State-owned lands including desert lands.

Land categories and definitions : Law No. 100 of 1964 deals with three categories of lands belonging to the State. These are : (i) agricultural lands, (ii) fallow lands and (iii) desert lands. Article 2 of this Law contains the legal definitions of these land categories. It defines "Agricultural Lands" as including the lands inside the *Zimam* (districts of cultivated lands) as well as the adjoining lands extending out-

(3) One more consideration that necessitated the amendment of Law No. 124 of 1958 was the fact that during the promulgation of the said Law, the Egyptian General Desert Development Organisation (EGDDO) was affiliated to the Ministry of War, and the Minister of War had been in charge of enforcing the said Law and supervising its application. However, by virtue of two Presidential Decrees No. 1899 of 1961 creating the Supreme Council of the General Organizations, and No. 3317 of 1962 regarding the Egyptian General Desert Development Organization, the latter Organization (EGDDO) has become affiliated to the Ministry of Agrarian Reform and Land Reclamation, and in consequence of this change the competence of carrying into force the 1958 Law and supervising its application had to be transferred from the Minister of War to the Minister of Agrarian Reform and Land Reclamation, leaving the exceptional powers provided for in this Law to the Minister of War in connection with the strategic and military considerations on the one hand and for the sake of public safety and State security on the other hand.

side the *Zimam* to a distance of 2 kilometers ; because these lands are considered the natural extension of the lands inside the Zimam and are in fact being cultivated.

Concerning «Fallow Lands», their definition specifies that they include uncultivated lands within the agricultural lands in the *Zimam* as well as adjoining uncultivated lands outside the *Zimam*; and all these lands are by their situation and nature considered as zones for immediate horizontal expansion and development.

As to the "Desert Lands", these have been legally defined as including all cultivated and uncultivated lands located within the zones considered as being outside the *Zimam* (after the distance of 2 kilometers outside the *Zimam*).

The phrase "Lands inside the *Zimam*" as stated in this article, means lands which have been surveyed in detail and recorded in the *Register* of the Survey Department as well as in the Mukallafa registers (records of land property) at the Land Taxation Department, and which are in this case subject to real estate tax on lands.

As regards to the phrase "Lands outside the *Zimam*", this include desert lands and all other lands which have not been surveyed in detail and have not been recorded either in the register of the Survey Department or in the *Mokallafa* registers at the Land Taxation Department, and which are not, as such, subject to real estate tax on lands.

As mentioned above, the Law No. 100 of 1964 deals with all types of state owned land including desert and fallow lands which are dealt with in Part III of the said Law (Articles 22 to 42). This part contains three principal sections. Section I deals with the disposal and alienation of desert and fallow lands for reclamation and development purposes. Section II deals with the granting of desert lands on lease basis. Section III deals with distribution of reclaimed desert lands. These three sections will be discussed subsequently.

2.21 *Disposal of desert and fallow lands for reclamation purposes*

Article 22 of the first section empowers the Minister of Agrarian Reform and Land Reclamation (i) to fix, by an *ad hoc* decree, the districts in which fallow and desert lands may be sold for development purposes, after ascertaining that these lands may benefit by irrigation from artesian water or any other water source; and (ii) to dispose of fallow and uncultivated desert lands by mutual agreement sales to would-be buyers for development purposes within the limit of twenty feddans of fallow lands and fifty feddans of desert land for each buyer.

Article 23 stipulates that the buyer must be of the Arab Republic of Egypt nationality, adult, of good reputation, and has not been sentenced to any penalty or imprisonment in a dishonouring offence. The same Article stipulates that the buyer shall undertake to develop the land sold to him and to cultivate it within seven years in case of fallow lands and ten years in case of desert lands beginning from the date of land delivery. This Article provides that the Executive Regulations shall lay down the rules for the sale by mutual agreement, the assessment of price, the conditions of payment, the period, the interest and other such conditions.

Article 24 specifies that if the buyer fails to meet his obligations in developing the land sold to him, neglects its cultivation, does not carry out development within the prescribed time limit and consequently disregards the agreement by which he is bound, the resolutory condition which is contained in the sale contract shall then be enforced, rendering the contract of sale nul and void since the original date of the contract; and the buyer shall consequently return the land and pay the proper rent from the date of delivery to the date of return, following the enforcement date of the resolutory condition; and that any immovable assets built up by the buyer on the land shall be transmitted to the Government free of charge as compensation to the State for the failure of the buyer to meet his obligations and thus causing harm to the public interest.

Article 25 stipulates that buyers shall only be allowed to dispose of the land sold to them if full payment of the price has been made; and that such disposal shall be to small cultivators who fulfil certain conditions so as to avoid concentration of large areas of developed land in a few hands and to give chance to a bigger number of small cultivators to own the land.

Article 26 : to safeguard the public interest and to encourage the development of fallow and desert land, article 26 empowers the Minister of Agrarian Reform and Reclamation to authorize the selling of fallow and desert lands to companies (public and or private corporate bodies) in areas larger than the 20 and 50 feddans limits set for individual buyers, provided these corporate bodies carry out the development and the cultivation of the lands they buy within 10 years from the date of land delivery to them; otherwise the provision of Article 24 regarding the dissolution of the sale contract, the returning of the sold land, the payment of rent and the transmission of immovable assets on the land to Government free of charge, shall be applied.

2.22 *Granting desert lands on lease*

Article 27 : provides that desert lands shall be given on lease to small cultivators within the limit of ten feddans for each. It is to be noted here that lease is a preliminary stage prior to distribution and disposal of land, and that in this case the exploitation of such land shall be granted to citizens of good conduct, who deserve more care and whose occupation is cultivation of land as their principal source of living; and in addition they, together with their families, do not own more than two feddans of agricultural lands (the minimum prescribed by the Law of the Agrarian Reform for small agricultural holdings) on ten feddans of fallow and desert lands per citizen and family.

Article 27 provides also that lease priority shall be given to those who have fulfilled the aforesaid conditions and to those who hold the leased land and cultivate it in fact. If the cultivator is not among those who are entitled to lease, social considerations shall be taken into account, such as the larger size of the family, the income level etc., giving preference to the inhabitants of the nearest zones to the leased land.

The above mentioned small cultivators shall, according to this article, be exempted from payment of any deposit in cash or in kind, as in the case of agricultural lands lease.

Since the rules of real estates taxes on agricultural lands inside the *Zimam* have not yet been applied to desert lands outside the *Zimam*, it is not possible to estimate the rental value of these lands on the basis of real estate tax rates. Article 28 of the Law has, therefore, referred the matter to the Executive Regulations with a view to laying down the rules which will be followed in assessing the rental value of desert lands.

2.23 *Distribution and disposal of developed desert lands*

Desert lands which have been reclaimed, developed and cultivated by the State shall be distributed to small cultivators and graduates of Agricultural Institutes, so that each shall have a small holding of not less than 4.5 feddans and not more than 7.5 feddans depending on the fertility of the land and the social conditions of the beneficiary (Article 30).

The same article stipulates that those to whom reclaimed land shall be distributed must have the prescribed qualifications, viz. they must be of the A.R.E. nationality, major, of good reputation, that they have not been sentenced to any penalty and or imprisonment in a dishonouring offence; that their occupation is land cultivation, shepherding and/or hunting as their principal source of living; and that the property of each, together with his wife and his minor children's property are altogether less than two feddans of agricultural land or ten feddans of fallow and desert lands.

Article 31 : specifies the *order of priority* in distributing reclaimed and developed desert lands as follows : **First priority** for those who have previously occupied and utilized the reclaimed area. It is obvious that the development and reclamation works cause harm to the inhabitants of the developed area and deprive them from their principal source of living whether in animal grazing or in seasonal cultivation which they customarily carry out. Therefore, these citizens deserve the first priority in land distribution in compensation for the unintentional harm they have undergone as a result of the desert land development projects which are drawn up in the general interest of the community.

Second Priority is to distribute equally the remaining surplus (after the distribution to those living in the reclaimed zone) as follows : (a) to the inhabitants of the overpopulated zones in the various governorates of the Republic, and (b) to the inhabitants of the desert zone in which the developed land under dis-

tribution is situated, including the inhabitants of the other not
as thickly populated zones of the Republic.

The order of priority for distributing the first half of the
remaining developed desert land which is reserved to the in-
habitants of overpopulated zones is as follows : (i) to Agricul-
tural Institutes graduates as well as to the *Tarahil* labourers
(hired workers transported from one place to another to work
in the fields) who have continuously worked in developing, con-
structing and cultivating the land under distribution; (ii) to
demobilized armed forces soldiers ; and (iii) to the inhabitants
of the overpopulated zones who accept to emigrate to the
reclaimed area.

As to the distribution of the second half which is reserved
to the inhabitants of the reclaimed zone, the order of priority is
as follow : (i) Agricultural Institutes graduates and agricultural
labourers who have continuously worked in developing and cul-
tivating the land in appreciation of their efforts in developing
these lands, (ii) to demobilized armed forces soldiers, and
(iii) to the inhabitants of the zone in which the developed land
of the overpopulated zones who accept to emigrate to the re-
claimed area.

2.24 *Organization of Cooperative Societies*

Articles 64 to 68 . have dealt with the organization of agri-
cultural cooperative societies which the Ministry of Agrarian Re-
form and Land Reclamation is keen to propagate among the
small owners and lessees of agricultural and desert lands. Arti-
cle 64 provides that the lessees of agricultural and or desert
land under this law, and the persons to whom the ownership of
these lands will devolve shall be *ipso jure* members of the co-
operative society which the Ministry will create or establish.

Article 65 : gives details of the services which these coope-
ratives will render in achieving the objectives of their establish-
ment. These services include providing the farmer with pro-
duction requisites and credit, organizing his crop rotation and
land utilization, marketing his produce of major crops and pro-
viding him with other necessary agricultural, social and econo-
mic services.

2.25 *Transitory Provisions*

Article 75 : of this law contained transitory provisions purporting the recognition of property rights previous to the enforcement date of Law No. 124 of 1958. This article recognizes the tribesman's ownership right to that part of his holding which he had planted with trees or actually cultivated it since at least one year preceding the date of enforcement of the 1958 law; provided that total area possessed will not exceed the ceiling limit set for land ownership. Right of ownership to parcels of land depending on rainfall and only seasonally cultivated are not recognized according to this article. Article 76 stipulates that ownership rights will not be granted if the holder fails to notify the Governorate or the E.G.D.D.O. of all particulars regarding his holdings and this should be done within one year from the enforcement date of the 1964 Law(4).

Article 80 : specifies that occupants of desert lands by putting up buildings or growing trees, who are not considered as proprietors by virtue of this law may request to buy such land or take them on lease for a period of not more than nine years. However, if they had not submitted this purchase request within one year of the enforcement of the Law, (this was amended to make it within a delay up to end December 1969) or if they had in fact submitted but it was dismissed, the Egyptian General Desert Organization would have the right to demolish the construction and pull up the plants or keep the buildings and the plants considering them as being the property of the State.

3 — *Summary and Conclusions*

Although the old and new Egyptian Civil Law relating to landed property did not deal explicitly with ownership rights in desert areas, yet these two laws contained important provisions under which any Egyptian citizen could acquire property rights on desert lands through cultivation or plantation of trees or by putting up a building even without prior permission from the Government. However, this right was subject to forfeiture

(4) This was amended and the delay was extended until the end of December 1969.

if the land was not used for a period of five years during the period of fifteen years following the date of the acquisition of the proprietory rights.

These legal provisions relating to acquisition of ownership rights in desert lands encouraged tribesmen to reclaim and develop these lands and expand cultivated areas and facilitated their settlement in line with the National Development Policy.

The Law No. 124 of 1958 governing possession and ownership of desert lands was especially enacted with the objective of speeding up the development of such lands by requiring tribesmen to acquire and establish their tenural rights in a legal prescribed manner. However, this Law did not take into account the customary and legitimate ownership rights of tribesmen acquired and established prior to this Act, and for this reason it gave rise to suspicions and worries amongst tribesmen and discouraged them to register their tenure rights under this Law.

An effort was made to rectify the situation by replacing Law 124 of 1958 with the new Law No. 100 of 1964. Although the new law has overcome many of the defects of the 1958 law yet it still has few shortcomings which may impede and discourage the legal establishment of rights and the rectification of the agrarian pattern in the desert areas. We believe that the new law (No. 100 of 1964) should be modified and amended as follows :

1 — Provision should be made to recognize the tribesmen customary rights over lands which they have customarily possessed and utilized for at least five years prior to the promulgation of 1964 law.

2 — Tribal Land possessed customarily should be alienated to them free of charge or at a nominal fee.

3 — Field Adjudication Committees should be established as part of 1964 Law to determine the correct position of land and water rights.

4 — The 1964 law should contain provisions to determine water rights and to conserve control and regulate the use of underground water resources in the region.

5 — Similarly, the law should contain provisions to conserve and regulate the use of grazing areas in the region by setting up a Grazing Authority for the establishment of grazing districts and for the enforcement of the legal provisions relating to grazing in force.

6 — The present legal provision relating to pre-determined ceiling of 4.5 to 7.5 feddans on the size of holdings to be distributed in the reclaimed desert areas (article 30 of 1964 Law) should be amended so as to provide flexibility in determining the size of holding in a settlement area so as to allow for the establishment of viable holdings on the basis of income expectancy and making full use of the farmer's resources.

7 — Reclaimed tribal lands depending on rainfall and run-off should be distributed only to qualified settlers selected from the present tribal occupiers of the area and other homogeneous groups and no portion should be assigned to outsiders as stipulated in Article 30 of 1964 Law.

8 — The tenural relationships between the State and settler-tribesmen should be clearly defined stating the basis, method, and mode of payment, etc...... Full ownership rights should be granted to tribal settlers subject to certain conditions, whereby, the state will exercise control over the proper use of land and water resources.