

**THE EMERGENCE & DEVELOPMENT
OF PUBLIC ENTERPRISE IN THE
U.A.R.**

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The Nature & Extent of the Egyptian Crisis

The modern history of Egypt may be considered to start with Mohamed Ali (1805-1845). Mohamed Ali became Viceroy in 1805 and started immediately a very daring political enterprise to establish his rule over the weakened ottoman Empire. To this end, he established for the first time in Egypt manufacturing industries; mainly arms, fertilisers and chemicals in which he invested some. L.E. 12 M⁽¹⁾.

However, it was his agriculture policy that made Mohamed Ali's rule of importance to the Egyptian economy. By means of raising the efficiency of irrigation he increased the cultivated area of Egypt from about 3 million feddans to about 4 million ⁽²⁾. Most of this increase was directed to the production of cotton, which was first produced on a commercial scale in 1821 and found ready markets in Europe⁽³⁾. Cotton exports, which started at a yearly average of L.E. 200000 in 1824 in-

1) Ahmed El Hitta : «*Tarikh Misr El Iktisady*» — (Economic History of Egypt), 1957.

2) Charles Issawi : *Egypt at Mid Century* — 1954 — pp. 21-3.

3) David S. Landes : «*Bankers and Pachas*» — 1958, pp. 75-85.

creased to some L.E. 2 M. annually by 1845⁽¹⁾. When the American Civil War cut Britain from its major source of supply, Egyptian cotton was ready to replace it. Egypt's exports of cotton to the U.K. increased from L.E. 8 M in 1861 to L.E. 22 M in 1865 and by that time Egypt reached the 3rd. position next to France and India in the list of sources of British imports⁽²⁾.

The emergence and development of cotton in the Egyptian economy was accompanied and followed by three things:—

First : Land ownership was settled on new lines.

Since the 16th Century, a system of 'Iltizam' has existed in Egypt, by which land belonged to the State and tax-farming rights were granted to notable members of the community according to the wishes of the rulers. Gradually, these rights became the privileges of certain sectors of the community and they were to a large extent similar to life-ownership rights. Mohamed Ali abolished this system and instead collected taxes directly from tillors by means of officials of the State, without intervention of other parties. Mohamed Ali put the Egyptian peasants under a system not very different from serfdom. Each Fellaah was forced to sell his crop to the pacha at prices that scarcely covered the fellaah's taxes. The profit incentive was replaced by a law that every fellaah was responsible for taxes of all his neighbours in his village, each village for the villages in the district, each district for the other districts in the province⁽³⁾. Abbas Pacha, who succeeded Mohamed Ali, had none of his father's ambitions. The peasants enjoyed some stability under his rule and cotton yield increased to more than half a million cantars. After Abbas Pacha, Said Pacha in 1858 abolished the system of solidarity of taxes and started a process

(1) Sir Reader Bullard : «The Middle East» — 1958, p. 182.

(2) Landes : op. cit.

(3) J. Bowring : «Report on Egypt and Candia» — Parliamentary Papers, 1840, XXI, 1-235.

that led to the establishment of ordinary private ownership. First, land was divided into two categories : *Raquaba* (ownership of land by the State) and *Tasaruf* (right to use during life time)⁽¹⁾. Said Pacha gave rights of *Tasaruf* to many of his relations and to Beduin Cheikhs, then, with the financial crisis of the 1870's the State gave many portions of its land (Raqaba land) to new *Mutasaref* (holders of *Tasaruf* land) and it also gave full ownership to any *Mutasaref* who was ready to pay in advance five years taxes to the State. In 1890 ordinary ownership rights were granted to all *Mutasaref*⁽²⁾.

Four features marked agricultural ownership in Egypt since then :—

1. — The rulers of Egypt transferred great portions of the State land (Raqaba) to their own use. Thus, they became the largest landlords in Egypt⁽³⁾.

2. — The rulers of Egypt also bestowed land on officials, Beduin Cheikhs and Mayors who served them⁽⁴⁾.

3. — Between 1890 and 1950 the State sold some 1 1/2 million feddans to rich people of the bigger cities as well as to foreigners⁽⁵⁾.

4. — Most landlords were absented living in big cities.

Second : The cotton boom stimulated trade and finance and established a strong foreign interest in Egypt.

The imposition of capitulations on Egypt meant that foreign businesses could enjoy exemption from taxes⁽⁶⁾. With the increase in the importance of cotton in the European markets large amounts of foreign capital were brought into Egypt between 1876 and 1933 as the following table demonstrates :—

1) Gabriel Baer : «Population and Society in the Arab East» — London 1964, pp. 138-141.

2) Ibid, Also his « A History of Land ownership in Modern Egypt ».

3) Ibid.

4) Ibid.

5) Ibid.

6) Alfred Bonne: State and Economics in the Middle East. 1955.

**Companies containing capital from abroad working
in Egypt total paid up capital and debentures**

£E000

Companies	1883	1902	1933
Mortgage	3,826	10,525	44,310
Banks and Financial Companies	1,843	2,174	5,085
Agricultural and Urban land	—	2,395	6,745
Transport and Canals	62	3,645	4,445
Industrial, Mining and Commercial	669	5,903	20,780
Suez Canal	15,615	18,350	20,930
Total	22,015	42,992	102,295

Source: Alfred Bonne: *State & Economies in the Middle East*, 1955. p. 251.

For the most part foreign capital was invested in areas where the risk of loss was comparatively small. Even in industry, the main fields of concentration were sugar and tobacco ⁽¹⁾.

Third: Egyptain Government finances deteriorated considerably.

The ruling family of Egypt, with the help of the impressive gains of the cotton trade, started some extravagant and mostly unproductive schemes which severely indebted Egypt to foreign bankers. This was largely the result of bad advice given by a group of foreign adventurers and fortune hunters who, in Mr. Landes words represented the «dregs of the Mediterranean» ⁽²⁾.

The rulers launched explorations in Africa and engaged in adventures that ranged from foolish attempts to aid Emperor

1) Bonne : op. cit.

2) Bankers and Pachas : op. cit., p. 89.

Napoleon III in his illfated Mexican wars to the building of luxurious Royal Palaces and gardens⁽¹⁾.

Part of the capital expenditure was financed by Government revenues, but the greater part by foreign loans, which were contracted on very usurous terms⁽²⁾. From 1862 to 1882 the Egyptian Treasury became indebted to the extent of some £.E. 100 M, or ten times the annual yields of the revenues of Government. Despite its critical financial position Government participated on the capital of the Suez Canal by some 44% of the total. It also provided all labour force and public utilities. The burdens which the Canal placed upon the country's finances paved the way for more foreign interference in Egypt's economic policy and the stage was thus set for the British occupation of Egypt in 1882.

2 — Egyptian State under British rule

During the early years of the British occupation the role of cotton in the Egyptian economy became even more important and this led to turning Egypt into an export-oriented economy⁽³⁾. British policy in Egypt was distinguished by two things. On the one hand, Britain established efficient financial control of the Government to secure that Egypt's debts to European interests were paid⁽⁴⁾. It was this purpose that Lord Cromer had in mind when he carried out what he called «the reform of the Egyptian bureaucracy»⁽⁵⁾ based upon the following:

1. — Recruitment on a school certificate basis⁽⁶⁾.
2. — The division of the Civil Service into two grades, the

1) Issawi, op. cit.

2) Issawi : «Egypt in Revolution» — 1967.

3) Issawi : «Egypt in Revolution» — op. cit.

4) Ibid.

5) Lord Cromer : «The Government of subject races» — in Political and Literary Essays 1908-1913.

6) Report on the finance, administration and condition of Egypt, and the progress of reform, London cd. 6957, pp. 25 - 26.

higher and the lower, each recruited from a different educational level.

3. — The introduction of a system of complete centralisation based upon a great volume of rules and regulations⁽¹⁾.

4. — The reservation of Senior posts for British or foreigners, with the result that by 1903 1/3 of such posts were occupied by Egyptians and by 1923 only 23%. On this last respect, the British policy was quite different from their policy in India which led to the «Indianisation» of the Indian Civil Service⁽²⁾.

In respect of qualification for entry and promotion into the Civil Service this developed an excessive emphasis on formal attainments in public examinations. The Civil Service suffered also from over-staffing due to the social prestige which was attached to government service and the little opportunities which industry offered to educated Egyptians.⁽³⁾

Finally, the reservation of senior posts for non-Egyptians prevented Egyptians from acquiring the necessary experience of leadership in management and administration.

On the other hand, the British authority in Egypt developed the agricultural system of Egypt effectively. In the initial years of British occupation the cultivated land increased from 4,160,000 Feddans in 1882 to 5,283,000 Feddans in 1913. They established a good system of irrigation, built the Aswan Dam

1) Moroe Berger : «Bureaucracy & Society in Modern Egypt» 1962.

2) Some of the contrast between British policy in India and in Egypt could be attributed to the drastic financial crisis of the Egyptian Government and to the instability of the British rule over Egypt as compared with India.

3) A.P. Sinker : « Report on the Problems of the Civil Service » — Cairo 1950.

and improved transport systems⁽¹⁾. Cotton was established as the major export of Egypt as the following table demonstrates :—

Cotton in the Egyptian Economy, 1878/1917

in millions £.E.

Year	Value of all Exports	Value of Cotton Exports
1878	12.1	9.3
1888	12.6	9.6
1903	23.1	19.5
1913/17	32.0	28.0

Sources : National Bank of Egypt, Econ. Bulletins.

The importance of cotton in the Egyptian economy may be explained by the following factors :

1. — Cotton which cannot be eaten by the hungry peasants was very suitable crop for cultivation in the lands of the absentee landlords who owned the majority of the Egyptian land.

2. — Cotton is easily graded and does not deteriorate, which facilitates its use by the Banks as a security for loans.

3. — The climate and soil of Egypt is suitable for the most high grade types of cotton which were favourably received by the European mills.

Perhaps the most significant result of the development of cotton in the Egyptian economy was the increase in population as demonstrated in the following table :—

1) Issawi : Revolution, op. cit. pp. 24 - 9.

Growth of Population : 1897-1937

Population	Year	Ann.% rate of increase
9,715,000	1897	1.5
11,287,000	1907	1.55
12,751,000	1917	1.25
14,218,000	1927	1.09
15,933,000	1937	1.15

Sources : Population Census.

Cotton itself was and still is a major cause of population increases. Cotton provides employment for children and thus turns a child into a financial asset at the early age of four or five. To this must be added the fact that the Egyptian people never attempt to migrate in search for better opportunities, being one of the most sedentary and longest settled people of the world.

Agricultural ownership continued to be the privilege of a few Egyptians including the Royal family and some foreigners. 12,000 landlords owned more than half of the cultivated land ⁽¹⁾ Foreigners who constituted only 1% of the population in the early 1900's owned over 13% ⁽²⁾. The Government of Egypt rested on the support of the landed aristocracy; and in the early 1900's the British agent commented that almost all candidates for the Provincial Councils were members of important landowning families : in 1913 forty nine out of the sixty members of the Legislative Assembly were big landlords⁽³⁾.

3 — Early Egyptian Industry

By the end of the first World War this situation had begun to change. For one thing, soil exhaustion began to lower yields

1) The National Bank of Egypt, Eco. B., No. 3., 1961.

2) Baer : «Population and Society» — op. cit. p. 99.

3) cd. 5633, p. 39 and cd. 7358, p. 7.

and increase costs. Cotton yields declined from 5.8 Cantars per feddan (1913) to as little as 3.11 cantars (1919), and fertilisers had to be used extensively. Moreover, Egyptian cotton had to meet competition from other cotton growing countries, such as the Sudan, as well as that from old ones such as the U.S.A. In 1920, the end of the War restrictions on the export of cotton brought into the country record cotton export earnings of £ 100 million.⁽¹⁾

The supply of money increased also as a result of the expenditure of the British troops, which was estimated at £.E. 80 M.⁽²⁾ The direct result of this inflation was to increase the sufferings of the poor peasants and other low income groups, as the index of prices rose from 100 in 1914 to 211 in 1918 and 312 in 1920⁽³⁾.

Another result of this situation was the accumulation of large sums of money in the hands of the landlords. As expanding the areas of cultivation had become more expensive and less profitable than before, most of the landlords used their gains for «travelling abroad and speculation» ⁽⁴⁾.

Another and not less important result of the War was the creation of a political nationalist movement. This demanded greater independence, especially after the Versailles Treaty, in which the Great Powers announced their intention of granting their colonies (or some of them) greater self-Government. It was in this situation that an Egyptian entrepreneur emerged with a daring idea to establish an all-Egyptian Bank to invest in industry as well as to perform commercial banking functions. This was Talat Harb Pacha, who succeeded in 1920, in establishing the first Egyptian Bank, Bank Misr ⁽⁵⁾. The purpose of

1) A. Crouchley: «Foreign Capital in Egyptian Companies and Public Debt» — London 1936, p. 174.

2) Ibid.

3) Issawi: «Revolution», op. cit. p. 31.

4) Ibid.

5) S.N. Fisher: «Social Forces in the Middle East» — N.Y. 1958, pp. 125-27.

the Bank was expressed by the founder in the following words: «The establishment of Bank Misr is realisation of the desire to have an all-Egyptian Bank to work for Egypt» ⁽¹⁾. The Bank announced that working for Egypt «would involve the establishment of industry », a purpose that was modestly encouraged by the government of the day, which deposited in the Bank the sum of £E. 50.000. By 1927 deposits amounted to over £E. 5 million⁽²⁾. Nevertheless, the Bank was unable to invest on large scale because the capitulations still ensured that Egypt's markets were opened unconditionally to foreign trade ⁽³⁾. At most, Government was able to impose a fixed customs duty of 6% ad valorem. But in 1936, when Britain recognised the full sovereignty of Egypt, Government was able immediately to impose protective duties on textiles, and Bank Misr established 8 companies engaged in spinning and weaving with a total capital of over £E 4 M ⁽⁴⁾. This was a good base for further expansion and by the outbreak of the 2nd War the Bank had established 27 companies and advanced loans to industry which totaled over £E 31 M ⁽⁵⁾.

Bank Misr policy was based upon :—

1. — The establishment of industries that were dependent upon its textile companies; that is to say, it established transport facilities, cotton insurance companies and cotton exportation companies⁽⁶⁾.

2. — The Bank started with some 126 founders and a capital

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- 1) Speech on the opening of the Bank Misr : «Talat Harb» — book published by Cairo University, 1957, p. 25.
 - 2) A.I. El Gritly : « The structure of modern industry in Egypt » — 1947, p. 376.
 - 3) Kamal El Din Sidky : « Al Bonok Al Mysreya » (Egyptian Banks), Cairo 1958.
 - 4) Dr. A. El Kaisouny : «Egypt's Trade» — Lecture delivered at the Trade Club, Cairo 10th February 1960. Also Kamal El Din Sidky, op. cit.
 - 5) Issawi : Revolution, op. cit. pp. 264-5.
 - 6) Kamal El Din Sidky, op. cit.

of £.E. 80,000. By 1927 it had increased its capital to £.E. 2 M. and the number of its shareholders to 10,000, a number that subsequently remained stable. When it increased its capital, in 1955 to £E 3 M, these 10,000 shareholders were the only beneficiaries⁽¹⁾.

3. — The Bank Misr companies were uniform in their organizational structures. Each company was under close control by the Bank and had a board of director and a general manager. In general, «although by the standards of advanced countries, these organizations might be considered underdeveloped, particularly in the staff departments, they were very advanced for Egypt»⁽²⁾.

Bank Misr and its companies were the largest Egyptian-owned and Egyptian-managed enterprises in the country, but they failed to achieve any considerable industrial expansion, Industry in fact, was responsible for only 8% of GNP before the second World War⁽³⁾. This can be explained by the following factors :—

1. — Bank Misr did not produce any industrial, managerial or commercial challenge to the landed aristocracy. The landed elite had set the pace and form of Egyptian society for so long that those Egyptians rising through industry and commerce tended to become satellites of the aristocracy⁽⁴⁾.

2. — Bank Misr activities were inferior both in size and ability to those of foreign firms. In the 1930's the total Egyptian share in joint-stock companies amounted to 9% only⁽⁵⁾.

1) Ibid.

2) Habrison and Ibrahim : *Human Resources for Egyptian Enterprise* — 1958, p. 47.

3) Issawi : *Revolution*, p. 44.

4) Erskine B. Childers : *Road to Suez* — 1962, p. 67.

5) Dr. Rached El Barawy : «*Haqlqet El Inkilab El Akhir*» — (The truth about the Military coup) 1952, pp. 45-5.

Most foreign firms were subsidiaries of large International Firms such as Socony, Vacuum, Heinkens, Players etc... and they were far more advanced from the organisational and administrative point of view⁽¹⁾. Moreover, they did not provide any facilities for the development of Egyptian managers. «Egyptians never participate in the major policy decisions of these companies and even the filling of jobs of foremen, technicians, administrators and junior managers (is) was mostly from minorities, Armenians, Italians, Greeks, because these minorities traditionally were engaged in trade and commerce and in small industrial enterprise. Furthermore, these minorities were educated in foreign schools and had access to Arabic as well as foreign languages⁽²⁾.

3. — Industry was not attractive to Egyptians because they were accustomed to seek employment in the Government or in agriculture. In 1937 Foreigners Constituted only 1% of the total labour force and 54% of foreigners worked in industry and transport as against 10% of Egyptians, and 22% of foreigners worked in commerce and finance as against 6% of Egyptians and 22% in services against 5% of Egyptians⁽³⁾.

Furthermore, when Bank Misr met its first crisis, Government response had been to halt industrial expansion. The Bank's expansion of industrial loans involved it in a critical situation. Just after the beginning of the second World War, it was unable to meet demands for cash. Government intervened and inspected the accounts of the Bank, which revealed a deficit of £.E. 4 M.⁽⁴⁾. Accordingly, it lent the Bank £.E. 2 M. to meet its difficulties and appointed a representative on the Board of Directors of the Bank to ensure that the Bank pursued no 'adventurous' policy until it had met its obligations⁽⁵⁾. This persuaded the Bank to change its policy towards industry. As the Board of Directors of the Bank reported, «We no longer offer

1) Habrison and Ibrahim : op. cit. p. 55.

2) Ibid.

3) The 1939 Census of Population, Cairo 1939.

4) Kamal El Din Sidky : op. cit.

5) Law No. 40 of 1940 and its explanatory Note.

long-term loans... and as far as possible we are concentrating on commercial banking functions⁽¹⁾ ».

During the War the large expenditure of the Allied Forces, specially after the establishment of the Middle East Center, gave a considerable stimuli to industry. The Center itself encouraged the establishment of industries to supply the Allied Forces with some of their needs, specially after the defeat of the French fleet in the Mediterranean. Among the new products which were made in Egypt were superphosphate fertilisers, jute sacks, sulphuric acide, cardboard and wrapping paper⁽²⁾. Allied Military expenditure during the War which totaled £E 314 M, helped to accumulate the necessary funds to finance these investments and to make up for the near disappearance of revenues traditionally obtained from cotton sales. Production rose by 138% between 1939 and 1948⁽³⁾.

However, the end of the War brought an end to this industrial boom and faced Egypt with a critical situation. First, the War restrictions on imports decreased the supply of fertilisers and soil exhaustion increased⁽⁴⁾. Also, these restrictions increased the habit of using non-selected seeds amongst the peasants and the quality of their products consequently deteriorated. Secondly, the relaxation of restrictions on cotton acreage after the War led to a sudden shift back to cotton cultivation, thus increasing cotton's share in total cultivated area to its 1939 level of 21%, from its War limit level of 8%⁽⁵⁾. As this was not accompanied by an increase in cotton prices abroad, the earnings of cotton, Egypt's major supplier of income, decreased. Furthermore, after the War the prices of cotton suffered considerable International fluctuations due to a decrease in demand, specially in the British cotton industry, the major buyer of Egyptian cotton⁽⁶⁾. Egypt-

1) Annual report of the Board of Directors of the Bank, 1940.

2) George Kirk « The Middle East in the war » 1955 pp. 189 - 93.
pp. 30 - 2.

3) Central Bank of Egypt, Econ. B. No. 2, 1961.

4) Ibid.

5) U.K. Board of Trade : Annual Report on Egypt, 1947.

6) United Nations : Economic Developments in the Middle East 1945/54

tian cotton was also confronted with drastic competition from other cotton-producing countries, such as the Sudan and the U.S.A.⁽¹⁾. Meanwhile, population increases Egypt dependence upon imports of grains. In 1948, at least 760,000 tons of wheat grains were imported to Egypt as against less than 200,000 tons in 1936-39⁽²⁾. Thirdly, the habit of importing more consumer goods for the benefit of the upper classes continued to constitute a burden upon the balance of payments⁽³⁾. Between 1948 and 1952, the trade deficit remained at an annual figure not less than £.E. 35 million⁽⁴⁾.

Finally, War expenditure increased the cost of living, as the wholesale price index increased from 100 in 1939 to 330 in 1944⁽⁵⁾.

These were some aspects of the critical post-war situation. The British Board of Trade put Egypt's problems in the following words : « Agriculture alone is no longer sufficient. Population is increasing at the rate of at least 1% annually, while on the other hand the cultivated land is hommed by the desert and owing to the negligible rainfall is limited to what can be irrigated by the waters of the Nile⁽⁶⁾ ».

The Government's lack of appreciation of this situation was shown by its abolition of the protection of the Egyptian industry, which immediately subjected it to the competition of cheaper products and the average profits of joint-stock companies decreased from 21% in 1943 to 14% in 1948⁽⁷⁾. To understand this more fully we must examine : *First : the position and problems of Egyptian industry ; Secondly : the attitudes of Government.*

1) National Bank of Egypt : Econ. B., Vol. V No. 1., p. 41.

2) Ibid : pp. 224 - 6.

3) National Bank of Egypt : Econ. B., Vol. V., No. 1., p. 41.

4) Ibid :

5) United Nations : Development of Manufacturing in Egypt, Turkey and Israel, 1958, p. 98.

6) Their 1947 Annual Report on Egypt, op. cit. p. 1.

7) Development of Manufacturing : op. cit. pp. 49 - 50.

The post-War features of Egyptian industry were as follows :

1 — Though it was still of minor significance within the economy, it was nevertheless developing as fast as conditions permitted. Although, its share in GNP was just over 10%, Egyptians participations in newly established joint-stock companies had increased from 9% in 1933 to 47% in 1940-45⁽¹⁾. Of Directors of all companies registered in Egypt in 1951 at least 40% were Egyptians⁽²⁾.

2 — The second feature of industry was its scattered nature. The 1952 Census points out the fact that of the 650,000 persons employed in industry, only some 250,000 were to be found in firms numbering 3,400 which employed more than 10 persons. The remaining 400,000 were employed in over 200,000 firms with less than 10 persons each⁽³⁾.

3 — The third feature of the Egyptian industry was the almost complete lack of any direct or indirect Government participation in its capital.

4 — The fourth feature of industry was its lack of efficient entrepreneurs and the backwardness of its managers. As two students of the subject have noted. « The Manager is a dominant individual who extends his personal control over all phases of the business. There is no chartered plan of organisation, no formal procedures for selection and promotion of managerial personnel, no publicised system of wages and salary classification. The status of individuals in the hierarchy is based not so much upon functions as upon the nature of their relations with the owner-manager⁽⁴⁾ ».

In respect of the Bank Misr companies, which were still the

1) Dr. Rached El Barawy : « Haqiqet El Inkilab El Akhir » — (The truth about the Military Coup) Cairo, 1952, p. 65.

2) Issawi : Revolution — op. cit. p. 89.

3) Wages and Employment Census : 1952.

4) Habrison & Ibrahim : op. cit. pp. 65 - 6.

most efficient Egyptian companies, the same authors have commented : « The Misr group companies is more advanced than the majority of Egyptian managements... but they are not prepared to go as far as their counterparts (foreign firms) in formalising procedures, position description, salary and wages administration and management development programmes⁽¹⁾ ».

5 — The fifth feature of Egyptian industry was its strong link with agriculture. Already we have noticed that the Bank Misr companies, the first Egyptian attempts at industry, were directly connected with cotton. Post War industry continued to illustrate this, as textile industry accounted for at least 36% of all industrial employment and food industries for another 35%⁽²⁾.

These features suggest that the *industrial sector of Egypt was in great need of aids to enable it to expand to any position of significance.*

Of the complaints of industry against Government, the following were the most important⁽³⁾.

1 — excessive bureaucratic intervention and multiplicity of administrative organs dealing with industry.

2 — inconsistency of industrial policy, which was subject to frequent changes; and,

3 — excessive taxation of industry.

Of the requirements for industrial development, the following were stressed by a leading Egyptian industrialist⁽⁴⁾ : —

1 — existence of local market;

2 — availability of local raw material;

3 — participation of foreign capital.

1) Ibid.

2) Industrial Census : 1952.

3) National Bank of Egypt : Econ. B., Vol. v., 1952, pp. 11 - 14.

4) Reported in the Readers' Digest, December, 1947. p. 187.

Complaints against the bureaucracy would appear to be confirmed by the fact that in 1950 the Egyptian bureaucracy was over-staffed, over-regulated and far from being an adequate organ of public policy. In 1951, the Civil Service employed 2.2% of the population, as against 1.3% in Britain, and accounted for at least 35% of total public expenditure, as against only 9% in Britain⁽¹⁾. Furthermore, Government not only had failed to reorganise its apparatus of public administration but tended to exploit the huge number of Civil Servants for party-political purposes⁽²⁾.

In respect of the conditions for industrial expansion, all the three of them were lacking. The local markets of Egypt were limited, due to the extensive concentration of wealth. As few as 7,000 persons owned £.E. 500 M. worth of land, while some 10,000 persons held the bulk of securities and 20,000 persons owned half the buildings of the country⁽³⁾.

The rich upper classes were very quality-conscious and accustomed to foreign products, and it was very difficult to persuade them to purchase what they considered inferior types of locally-produced products. As we have seen, the Government never attempted to impose any restrictions on the foreign purchases of these classes. On the other hand, most the population employed in agriculture, had incomes that barely sufficed for their basic needs.

As far as raw material for industry was concerned, Egypt was and still is, very deficient; but even the few unexploited raw materials could never be provided to local industry unless the Government took some kind of initiative.

As regard foreign investment, we have already noticed that very few foreign firms sought Egyptian participation. Moreover,

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- 1) A.P. Sinker : « Egyptian Personnel Questions » — op. cit. Cairo, 1951, p. 45.
 - 2) Morroe Berger : op. cit.
 - 3) Statement by President Nasser; reported in Al Ahram, December, 1961.

as noticed by Professor Issawi⁽¹⁾, after the War very few foreign investments were brought to the country and most of them were devoted to commerce, finance and petroleum⁽²⁾. Even if the foreign investor had been seriously interested in industry, he would certainly have been stopped by the same obstacles of which local industry complained. These circumstances explain why construction and building monopolised most investments and why industrial profits were invested in land whenever possible⁽³⁾.

Government then, was required to do many things to aid industry, for example, to improve the efficiency of transportation and communications, to establish a more adequate educational system, to provide administrators and skilled technicians. instead of ' effendi ' types to serve in the bureaucracy and to channel investments towards industrial expansion. It was also required to refrain from certain action, such as haphazard intervention and frequent changes in industrial policy. As however it failed to meet any of these obvious requirements, we must inquire why this was so.

The first reason was that the Government and political parties were too much engaged in political issues to be able to do anything for economic and social development⁽⁴⁾. Political power had become an end in itself, to which the political parties devoted most of their efforts. The Monarchy mainly exploited personal jealousies between party leaders for its own corrupt ends.⁽⁵⁾ Moreover, the whole question of national independence generally complicated the situation. As Professor Lewis has pointed out, it was very difficult to decide when had independence been achieved⁽⁶⁾. To the educated masses and to the politically-minded Egyptians, ' independence ' seemed meaningless as long as there were occupying troops in the country and the Sudan remained

1) Issawi : *Revolution*, op. cit. p. 237.

2) El Gritly : op. cit. p. 35.

3) U.N. *Economic Developments in the Middle East, 1945/54*, op. cit.

4) Sir Reader Bullard : « *The Middle East* » — op. cit. pp. 185-90.

5) *Ibid* :

6) *The Middle East and the West* : op. cit. pp. 58-63.

under foreign occupation. The political controversy is one explanation of the Government's inadequate policy for industry. A more important one is to be found in the *structure of political power*.

As Mr. Childers pointed out, the leading political elite of the country were 'nationalists', but conservatives in socio-economic affairs... « conservatives in the true sense that would alter the fundamental structure of the country⁽¹⁾ ». Up to 1950, the Egyptian Government was a poor Government, burdened by huge national and foreign debts. Its revenues came mainly from taxes and duties which were insufficient to enable it to do anything of importance. However, up to 1950 agricultural profits (except that made by joint-stock companies) were totally exempted from taxes, while taxes on the rental of cultivated land which had been fixed at 10% in 1933, were reduced to 8% in 1942⁽²⁾. Simultaneously, taxes on industrial profits, dividends and interests, fixed at 7% in 1933, were increased in 1942 to 12%, in 1951 to 14%, in 1950 to 16% and in 1952 to 17%⁽³⁾.

These facts strongly suggest that Egyptian Government dominated by the interest of the landed aristocracy was reluctant to take the fiscal measures necessary for the development of industry. This is confirmed by the fact that none of the political parties ever adopted policies aimed at breaking up the large estates⁽⁴⁾. The domination of Egyptian Government by the big landlords was embodied in the country's Constitution, which limited membership to the upper house of Parliament to those who paid taxes on land of at least £.E. 150. Since land taxation was from £.E. 0.9 to £.E. 0.8 per feddan, it followed that only landlords, owning at least 150 feddans were eligible for membership. The relations between the political parties leadership and the landed aristocracy were illustrated by Professor Baer,

1) Road to Suez : op. cit., pp. 67 - 8.

2) Abdel Razek Hassan and Nassouh El Dakak : U.A.R.; some economic features. Also: Hassan Said Salim, *El Marja El Dariba* (the Taxation Reference), 1961.

3) Ibid :

4) Baer: «History of Land Ownership», op. cit. p. 140.

who found that thirty of the large landowning families between 1942 and 1950 provided more than one member for each family to the two houses of the Egyptian parliament⁽¹⁾. Furthermore, of these thirty families eighteen provided Cabinet Ministers. Similarly, a large number of the Prime Ministers of this period had firm ties with these eighteen families. Nahas Pacha, the leader of the Wafdist Party (the largest political party), married with El Wakil Family; Ali Maher Pacha, another party leader and more than once a Prime Minister, married with the Fuda family, while Hilaly Pacha who also occupied the premiership several times married with Amr family.

Finally, the Egyptian Monarchy itself which was far from neutral ' in politics ', was the largest landowner in the country.

It would, of course, be untrue to suggest that all the political leaders were ' conservatives ' or ' reactionaries '. Nevertheless, in explaining the indifferent attitude of Government towards industry, the structure and nature of the political leadership must play an important part; for any serious attempts at economic development involved the adaptation of policies which would inevitably undermine the social basis upon which the power of that leadership depended.

4 — Political and Social Change.

In July 1952, the army revolted and assumed complete authority⁽²⁾. The army revolt started without any definite ideology

1) Ibid.

2) The existing political framework permitted no other means of changing power; «the purported Parliamentary system was mysteriously largely if not entirely alienated from the public, shamelessly manipulated to provide a colour of legality by a narrow ambitious and selfish oligarchy ». S.E. Finer : « The man on horseback » — 1962, p. 117.

Also; « of all groups in Middle Eastern society, the army officers have had the longest and most intensive exposure to Western influence, and have the most vital professional interest in modernisation and reform ». cf Bernard Lewis: «The Middle East and the West» — op. cit., p. 50.

or programme of action⁽¹⁾, but merely with a nationally felt desire to help ' the country out of its crisis ' and to transfer power to the hands of ' men in whose ability, integrity and patriotism the people could have complete confidence⁽²⁾.

However, once in power they realised that the situation had reached a stage when drastic measures of economic and social reform had become necessary. And to this end, the Military Government took in hand the question of land reform.

The Agrarian Reform Act which was announced in December 1952⁽³⁾, limited agricultural ownership with certain exceptions (including desert and land under reclamation) to a maximum of 200 Feddans. This involved the estates of just over 2,000 landlords which amounted to some 20.3% of the total cultivated land⁽⁴⁾. Landlords were permitted to transfer 100 Feddans to their children not more than 50 to each — and to sell lots of 5 Feddans to any farmers owning less than one feddan. The rest was to be distributed in lots of 2 to 5 among landless peasants and labourers, who were to pay the State in instalments over 30 years. Landlords were to receive compensation in 3% State Bond, the amount being based upon the 1952 tax assessments.

The Mohamed Ali family's land was to be expropriated totally and without compensation.

The economic aims of this Act were explained as follows⁽⁵⁾ :

1 — To eliminate one major obstacle to economic develop-

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- 1) P.J. Vitkiotis : « The Egyptian Army in politics » — 1961.
 - 2) Announcement by the Military Government on their first day in power : reported in Al Ahram, 24th July, 1952.
 - 3) Decree Act No. 178, 1952.
 - 4) National Bank of Egypt, econ. B., 1952. The Bank estimated that 71% of all landowners in Egypt owned one or less feddan each and thus accounted for nearly 12% of the total cultivated land, another 22% of landowners owned less than 5 feddans each and accounted for another 22% of total cultivated land.
 - 5) Explanatory note of the Agrarian Reform Act.

ment, i.e. the tendency to invest large amounts of money in land;

2 — to increase the purchasing power of the community;

3 — to enable the investment of new funds in industry by making the Bonds issued for compensation negotiable.

The Act's political and social aims were explicitly stated by certain members of the Military Government. Politically, it aimed at « abolition of agricultural feudalism in order to abolish political feudalism⁽¹⁾ ». Socially, it aimed at establishing a « new class of small landlords⁽²⁾ ».

As Miss Doreen Warriner has said : « The intention of the reform was to remove the wealthy families from their dominating position in the life of the country⁽³⁾ » — a position never previously challenged.

The announcement of this Act was not received favourably by the political parties — not even by the Egyptian Communists. The traditional parties could not believe that the wealth of the Egyptian ' Pachas ' could be taken from them by a « bunch of army officers ». They supported the nationalist movement in its anti-imperialist slogans, but when the movement adopted policies contrary to their interest they opposed it. The new Prime Minister, Ali Maher Pacha, supported by the political parties, tried to delay the execution of the Act, under the pretext of studying the experience of other countries in land reform before authorising its execution⁽⁴⁾.

As for the Egyptian Communists, their opposition was

1) Statement by Mr. Hussein Chafey; reported in Al Ahram, 29th April, 1953.

2) Reported in Al Ahram, 4th September, 1954.

3) See : « Land Reform and Economic Development in the Middle East » — London 1963, pp. 14 - 15.

4) Doreen Warriner : « Land Reform in Egypt and its Repercussions » — International Affairs, Vol. XXIV, 1953.

based mainly upon the conception that because the U.S.A. « imperialist » happened to support land reform, there must necessarily be something wrong with it.

They went as far as to condemn the whole reform as a 'step' to distract the masses from the real causes of their troubles. Thus, they found that they had added the Military Government to their traditional enemies, the political parties. They demanded immediate 'democracy' and the return of the army to its barracks.

5 — The Changing Methods of Development.

From 1953/54 to 1956/57 Government saw its role as gap-filler an stimulator of development.

« We are not socialist », said Gamal Salem; « I think our economy can only prosper under free enterprise⁽¹⁾ ». But the Government, however devoted to free enterprise it might be, at least had to do something to fill the gaps. For this end, a Production Council was established as a public agency with autonomous status directly attached to the Military Cabinet⁽²⁾, and with powers to promote, study and where necessary, execute projects for industrial and agricultural expansion, and to take the necessary steps to encourage industrial investment. This was followed by the establishment of another public agency, i.e. the Services Council, to « co-ordinate the activities of Ministerial and public bodies engaged in providing public services and to prepare schemes for the promotion of such services⁽³⁾ ».

The Production Council drew up a programme which involved the expenditure of between £.E. 400 M and £.E. 500 M over ten years, of which 40% would be in foreign exchange. The following table demonstrates the major projects involved in this ten years programme : -

1) Reported in « Bourse Egyptienne », 26th January, 1954. Also statements by Dr. A. El Kaisouny, reported in the same newspaper on 15th, and 20th December, 1954.

2) Law 213 of 1953.

3) Law 393 of 1953.

Major Projects of the Production Council

Projects	£.E. M Estimated Cost
<i>i. Irrigation & Agricultural Development</i>	
<i>including land reclamation :</i>	
a) Aswan High Dam Construction & auxiliary works	138
b) Other	31
<i>ii. Hydro-electric development :</i>	
a) Aswan power station	27
b) High Dam power	71
<i>iii. Communications including</i>	
<i>telecommunications, docks and harbours :</i>	
	85
<i>iv. Industrial development :</i>	
	41
TOTAL	393

Sources : Board of Trade Mission to Egypt, Ethiopia and the Sudan, 1955, p. 15.

Of these projects, the High Dam had first priority⁽¹⁾. The prospective advantages of this project included an increase in cultivated area by about 1.3 M acres, the provision of sufficient water for rice cultivation, the conversion of some 0.7 M acres into perennial irrigation, a guaranteed flow of water at all times, improved drainage through the lowering of underground water table during the flood period, a guarantee of discharge necessary to ensure navigation below the Dam throughout the year, and

1) U.K. Board of Trade Mission; op. cit., p. 18.

abundant hydro-electric power⁽¹⁾. The Council decided to concentrate Egypt's energies and resources on the project⁽²⁾; and for this purpose brought in International experts to do the surveying. Government, for its part started negotiations with Western Governments and the International Bank for financial help.

The Production Council also initiated some new projects such as the iron and steel factory and the fertilisers factory, in co-operation with local and foreign capital, while the Government passed laws to facilitate the investment in industry of both Egyptian and overseas funds.

In April 1953, law No. 156 on the investment of foreign capital was passed. It permitted the transfer abroad of profits up to an annual limit of 10% of the total. It also permitted the transfer of the whole capital, within five years of the date of investment, at the rate of one fifth annually. In 1954, this law was further liberalised by permitting the transfer of all profits and the whole capital within five years. In the same year law No. 430 gave tax exemption for investments (foreign and local) in industry for five years. Law No. 138 of 1947 was amended to enable the participation of foreign capital and foreign management in Egyptian joint-stock companies.

In February, 1954, Law No. 26 modernised the legal status of joint-stock companies. Among its important objects were :-

1 — to increase the stability of companies (thus it stipulated that at least 10% of annual profits be placed in reserve).

2 — to clarify the board members and give clearer responsibilities thus, it specified that board members should not exceed seven, all of whom should have functional responsibilities); and,

3. — to clarify the functions of the companies themselves

1) Ibid : p. 19.

2) Ibid : p. 18.

(thus it specified that companies should state very clearly their purposes).

Finally, the Minister of Finance was empowered to advance to the Bank of Industry a sum of £E 1 M, to be used for industrial lending ⁽¹⁾.

The Bank was thus able to authorise loans to industry which amounted to over £E 2 M in 1955 as compared with a total of just over £E. 1.5 M over the preceding four years⁽²⁾.

What sort of response to these measures came from private and foreign investors ? It is very difficult to say as the 1956 crisis intervened. Some evidence, however, is provided by the United Nations, which gave the following estimates of gross and private investments in that period.

**Gross and Private Investments.
1950 to 1956**

	£E M						
	1950	1951	1952	1953	1954	1955	1956
Total Gross Investment	115	118	143	116	135	122	110
Gross private Investment	112	83	103	64	57	54	39
Gross public Investment	22	25	29	34	53	62	66
Changes in Stock	19	8	18	18	25	6	5

Source : U.N. Econ. Development in the Middle East, 1956/57, p. 7.

This table demonstrates that there was no clear trend in total investments, a clear decline in private investments and an upward tendency in public investments.

Most public investments were channeled through the Production Council and were mainly absorbed in two projects, i.e.,

1) Law No. 561 of 1955.

2) The Bank of Industry annual report of 1955. Also U.N. Economic Developments in the Middle East, 1945/54, p. 31.

the steel factory and the fertilisers factory ⁽¹⁾. Private industry showed no clear signs of any response to Government's encouragement and the capital released from land was absorbed mainly in urban construction, whose share in total private investment reached 78.3% in 1954 and 80.7% in 1955⁽²⁾ against 13.3% and 14% for industry in the same years.

The response of foreign private capital was no better. Up to 1955 only 2 M U.S. Dollars were brought into the country, of which 90% was absorbed into the petroleum industry ⁽³⁾. Assistance to Egypt by foreign Governments also greatly decreased ⁽⁴⁾.

What were the reasons for this failure ?

Firstly, the Behaviour and stricture of the Egyptian bureaucracy remained unchanged. Secondly, Egypt was still involved in political crisis. Thirdly, the expropriation of the landlords estates constituted a disincentive to new investment, particularly in the less familiar fields (e.g. steel and engineering).

Nevertheless, it was not these factors which were responsible for the *Government change of policy after 1956*. It was the Suez crisis which opened up a new perspective. How this happened must now be examined.

The official estimated cost of the High Dam project was put at £E 415 M, of which 35% had to be in foreign currency, for the import of construction and power equipment. The Egyptian Government approached the International Bank, the U.S.A. and the U.K. to secure these foreign funds. In February 1956, an agreement was reached. The International Bank was to provide 200 M U.S. on condition that the U.S.A. and the U.K.

1) The Production Council : Annual Report 1955.

2) U.N. Economic Development in the Middle East : 1955/56, p. 26.

3) U.N. Economic Development in the Middle East : 1955, p. 25.

4) Economic Assistance to the less developed countries, a report by the U.N. Secretary General to the Economic and Social Council, 1961.

would jointly provide 70 M U.S. Dollars and Egypt the equivalent of 900 M U.S. Dollars in local services and utilities ⁽¹⁾.

Suddenly, in the summer of 1956, the U.S.A. Government announced its refusal to finance the High Dam and Britain and the International Bank followed it. The Military Government answered by nationalizing the Suez Canal. The purpose of the nationalization, as announced by President Nasser, was to provide alternative means of financing the High Dam. The immediate consequence was the Suez War. *As far as this study is concerned, this great crisis led two important changes in Government's approach to the process of economic development.*

The first was the direct consequence of Egypt's new position in International affairs. After the Suez crisis, private investments coming to Egypt declined greatly. Between 1956 and 1961 their total was no more than £E 3.5 M. 80% of which was absorbed by the petroleum industry⁽²⁾.

However, Government-to-Government loans and grants increased greatly as the following table demonstrate : —

**Government-to-Government Loans
and Grants**

Country or/ and Block	1952/1956		1957/1960	
	Loans	Grants	Loans	Grants
<i>The U.S.A.</i>	6.5 M	220.000	—	45 M
<i>The U.S.S.R.</i>	—	—	113 M	—
<i>All the Soviet Block* :</i>	—	—	217 M	—
<i>All Western Countries**</i>	—	—	206 M	—

* Including the Soviet Union.

**Excluding the U.S.A. mainly W. Germany, Italy and Japan.

Sources : The Budget project of the five-year. Cairo 1961, U.A.R. Year Book for 1961, Underdeveloped Countries; average of net International flow of long-term capital and official donations ,op. cit., 1960.

- 1) For detailed Political study of the Suez crisis : Childer's **Road to Suez**, op. cit. specially chapters vii, viii, ix, x and xiv.
- 2) Reported in Al Ahram : 26th November, 1961.

What stands above all, from this table is the emergence of the Soviet Bloc as a major donor. The Soviet Union alone undertook to finance the High Dam requirements of foreign exchange and together with the Soviet Bloc offered Egypt other credit facilities ⁽¹⁾.

Most of the Soviet Bloc loans were given to Government to enable it to carry out its industrialization programmes and it was estimated that 62% of these loans were directed to power projects, 11% to steel products, 8% for machinery, 6% to light industry and 3% to petroleum ⁽²⁾. To offset the decrease in the exports of cotton to Western Countries, the Soviet Union also stepped in. In 1958/59 it imported 67% of the total cotton crop as compared with only 15% in 1952/53 ⁽³⁾. This increased the role of the Soviet Union in Egypt's trading relations, as the following table demonstrates :—

Direction of Foreign Trade from 1938 to 1960.

	% of the total					
	1938		1950		1960	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
The Soviet	11%	10%	7%	1%	28%	51%
U.K. and Sterling :	23%	32%	19%	22%	6%	3%
W. Europe :	40%	36%	36%	35%	18%	5%
U.S.A.	7%	2%	6%	9%	18%	5%
Others :	19%	20%	32%	33%	30%	36%

Sources : Annual Statistics, Summary of Foreign Trade.

These changes involved a great increase in the role of the public sector which was not accompanied by any increase in private investments. They also had a profound political and administrative consequences.

- 1) Under Developed countries : Average of net International flow of long-term capital and official donations by country, 1960.
- 2) Reported in Al Ahram Al Iktisady : 15th May 1964.
- 3) Talat Adib Abdel Malek : «Some Aspects of Egypt's control of foreign trade since 1943» — A thesis, London University, 1961.

The increase in Soviet loans meant that Egypt's supply of capital increased and that this increase was channeled mainly through the Government. These loans, moreover, were to be used for establishment of new industries of a type unfamiliar to Egyptian private business.

Egyptian business was traditionally concerned with light industries, specially textiles, but most of the Soviet loans were to be used for heavy industry and power.

The increase in Egypt's dependence upon Soviet trade meant that her economic policy became more firmly directed by Government. This is obvious as far as cotton exports were concerned. Previously, Egyptian cotton had been sold to individual firms in Europe by private Egyptian firms under very modest Government supervision. The new arrangements, by which cotton was to be sold to the Governments of the Soviet Bloc, meant that these firms had lost most of their bargaining power. Hence, eventually Egypt's most important commodity had to be brought under complete Government's control.

These changes clearly meant an increase in the extent of public effort and public management.

A second effect of the Suez crisis was the Egyptianization of all Anglo-French investments in Egypt. These were concentrated in some of Egypt's most efficient companies in insurance, banking, commerce and industry ⁽¹⁾. A total of some 24 companies, 6 of which were totally owned by Anglo-French investors and the remaining 18 were of mixed ownership⁽²⁾. The Government decided to nationalize the greater part of their assets, over 87% of them was transferred to public ownership, and the remaining 13% being sold to Egyptian investors⁽³⁾.

To control these nationalized assets together with existing Government investments (mostly effected by the Production

1) Economic Development Organization : Annual Report of 1957.

2) Kamal El Din Sidky: «El Bonok El Misreya» — op. cit. p. 174.

3) National Bank of Egypt: Econ. B. Vol. XIII, No. 2, 1957, pp. 178 - 9.

Council), Government established a new holding agency, the Economic Development Organization (E.D.O.)⁽¹⁾. The assets thus vested in the E.D.O. were estimated at £E 22 M distributed amongst companies whose total capital was estimated at £E. 50. M⁽²⁾. The E.D.O. also took over Government shares in previously-established or newly-established companies to a total of over £E. 30 M⁽³⁾. In sum, the Organization's capital amounted to about £E 52 M. of which 42% was the result of «Egyptianization», and the remainder of previous Government participation in industry. The purposes of the E.D.O. were thus stated⁽⁴⁾ :

1. — To achieve the best co-ordination and direction of public investments; and,

2. — to help the Government offset the economic difficulties arising from the blocking of Egypt's foreign exchange in Britain, and the U.S.A.⁽⁵⁾.

By the establishment of the E.D.O. Government became more directly engaged in business and was in possession of a considerable share of the economy. As a matter of fact the real value of the E.D.O. shares was far more than their nominal value upon which compensation was paid⁽⁶⁾. Furthermore, the Egyptianized companies were among the most efficiently operated and economically important firms of the country.

Thus, the Suez crisis greatly increased Government participation in industry. The whole economy in fact had assumed a distinctly socialist appearance.

1) E.D.O. Annual Report of 1957

2) Kamal El Din Sidky : op. cit. p. 170.

3) Ibid : p. 172.

4) E.D.O.'s 1957 Annual Report.

5) Sir Reader Bullard : pp. 226-8.

6) Sidky : El Bonok El Misreya, pp. 171 - 3.

6. — The Emergence of Public enterprise

In its first report (1956/57) the E.D.O. estimated its investments at just over £E 52 M ⁽¹⁾. These were distributed among Banks (some £E 8.9 M) Insurance companies (some £E 657.000), Mining and Petroleum (some £E 5.4 M) Manufacturing Industries (some £E 31 M), Trade and Transport (some 5.3 M), and Rehabilitation and Agriculture (some £E 100.000 ⁽²⁾). The remaining investments were distributed among some miner shares in other companies. Of all the companies under its control, nine of the total 49 were totally owned by the E.D.O.; the remaining companies were mixed ownership in which its share varied from less than 25% to 99%. In a sense therefore, Government remained committed to private business which it was now taking into public partnership. The terms of this partnership required definition and a new legislation was passed for this purpose.

Law No. 20, which established the legal status of the E.D.O. gave it powers over any company in which public share was bigger than 25%. Such powers included :—

1. — Powers to determine the investment policy of the company;

2. — powers to supervise and control all the decisions of the Board of Directors through representation in these boards by a number of members proportional to the E.D.O.'s share in the company's capital (with a minimum of two);

3. — powers to appoint or to confirm the appointment of the Chairman and senior managers; and,

4. — powers to veto any decision of a company's Board (unless such decision was confirmed by the General Assembly or by a two-thirds majority of the Board).

This law also gave the E.D.O. powers to establish new

1) E.D.O. Annual Report of 1956/57.

2) Ibid.

companies, to participate in existing ones, to increase or decrease the capital of any of its companies, and to wind them up. It was authorised to sell shares in its companies or purchase shares in other companies, and borrow from the Treasury or the commercial banks.

This first Egyptian legislation on public enterprise, however, did not confer complete independence on the E.D.O. It was brought under the authority of both the State Accountancy Commission and the Administrative Investigation Board. Its subsidiary companies, however, retained their joint-stock status.

The relationship between the E.D.O. and Government was very close. The E.D.O. Board was appointed by a Presidential Decree for unlimited period of time and was directly responsible to the President. The first board consisted of 9 members, including the chairman⁽¹⁾, who was a member of the Military Council. The other members were all part-timers except the General Manager, who was a junior member of the Military junta⁽²⁾. The seven part-timers were a Minister, 3 senior civil servants two public officials and a business man⁽³⁾. This board structure remained until 1959, when the Minister of Economy, Dr. Kaysouni resumed the Chairmanship⁽⁴⁾. All members apart from the General Manager became part-timers and the latter was given full managerial responsibilities. The total number of the board members was increased to 13. Apart from the Chairman and General Manager, there were five Ministers, 4 senior civil servants, 1 public official and one business man⁽⁵⁾. Thus, the connection between the E.D.O. and Government was greatly strengthened.

Below the Board, there were six functional departments in direct contact with companies, viz : Technical, economic, accountancy, financial, legal and personnel and general ser-

1) E.D.O.'s 1959 Annual Report.

2) E.D.O.'s 1957 and 1958 Annual Reports.

3) *Ibid*.

4) E.D.O.'s 1957 Annual Report. Also reports for 1958 and 1959.

5) E.D.O.'s 1959 Annual Report.

vices⁽¹⁾. In addition, five committees were established for mining, engineering, chemicals, textiles and trade, each of which included representatives of the main six departments and was headed by a director. Thus, while a rigid form of civil service organization was avoided, the E.D.O. maintained continuous contacts with the companies under its authority. However, the E.D.O. was conscious of the importance of promoting a business spirit, in its companies and it claimed to have achieved this by «the wise choice of managers of companies whose knowledge of their jobs would require the very minimum interference in their affairs by the E.D.O.»⁽²⁾.

Although information about E.D.O. representations on the boards of its companies is deficient, an examination of the names of the E.D.O. representatives shows that:—

1. — In all companies except six the Chairman of the board of directors were chosen from among the E.D.O. representatives on the board; and,

2. — most of the organization's representatives came from Government, from public authorities (such as the Production Council or the companies which were established by it) and the Universities, while a smaller number came from business.

In 1958, Government decided to establish a Planning Council to provide overall co-ordination for programmes of development. This Council was headed by the President of the Republic and included all Ministers and later it was called the Higher Council of Planning, mainly concerned with the giving of general directives on plans of development as well as the approval of such plans in their final forms⁽³⁾.

Then, in 1959, a National Committee for Planning headed

1) E.D.O.'s 1957 and 1958 Annual Reports.

2) E.D.O.'s Annual Report for 1960.

3) M.T. Ramzy: «The organizational and administrative aspects of development planning» — I.P.A., Cairo 1961.

by a Minister of National Planning, was established to draw up a national plan for ten years. Soon after its establishment, the Committee invited representatives of private and public bodies to participate in the examination of various possible projects for economic development. 60 Committees consisting of representatives of these bodies, as well as staff of the National planning Committee, were established and it was claimed that these Committees fully represented private business⁽¹⁾. However, most of the 'private sector' representatives were from companies controlled by the E.D.O.

The National Planning Committee after examination of various possible projects, estimated that it would be possible to double the national income in 20 years⁽²⁾. This the Committee pointed out would permit the achievement of an average growth-rate of 3.5% against a rate of 2.5% in the 1950's. The Government, however, decided that it would be possible to aim at doubling the national income in ten years, which implied a 7.2% annual growth⁽³⁾. This as Charles Issawi considered it was not impossible, but required greater effort and full control of the movement of the economy⁽⁴⁾.

In 1959 the national plan was announced amid a Government-backed campaign in the National Press informing the public of « this great national means of development⁽⁵⁾ ».

The social framework of the plan was one in which the

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- 1) Dr. I.H. Abdel Rahman and Dr. N. Delf : «Social aspects of development planning » — Memo 76, I.N.P., Cairo.
 - 2) Dr. M. Iman : « Preparation of the general framework of the national plan » — Memo 201, I.N.P., Cairo 1962.
 - 3) U.A.R. Year Book : 1959, p. 82. Dr. Kaisouny, the Minister of the Economy said; «since the population is presently growing at a rate of 2.5% per annum, population after twenty years would have grown by about 64%. If income has only doubled, per capita income would therefore, exceed its present level by less than 1/4 **Budget Report of 1959/60**, p.49.
 - 4) His «Egypt in Revolution» — op. cit., p. 70.
 - 5) Draft of the plan : Cairo, 1960.

greater part of the means of production would continue to be privately owned; but in which the State would provide the bulk of new investments.

The plan involved the investment of some £E 1700 M of which 23.1% was for agriculture, 34.1% for industry and Power, 16% for transport and communications and the remainder for housing and services ⁽¹⁾.

Local finance was to be responsible for 65% of these investments and foreign exchange for the rest. Thus, savings had to rise, to 21% of national income by 1965 against the previous figures of 11% in the 1950's.

Private sources were to be responsible for 70% of total savings and the private sector was to contribute some £E 56 M worth of investments in the first year of the plan out of the total local finance of £E 170 M and by some £E 61 M ⁽²⁾ during the second year of the plan; over the five years the private sector was to provide 11% ⁽³⁾. In other words, the private sector was entrusted with a major role in the implementation of the plan. This explains the warning given by the Vice President to private business that « unless it responds very adequately to the directives of the plan, the State may be forced to take other steps to ensure the fulfilment of the country's best means for development, the plan » ⁽⁴⁾.

But could the private sector fulfil these 'directives' ?

In considering these questions we must remember that the rate of capital formation in the private sector had decreased from £E. 113 M before 1952 to an average of £E 77 M between 1956. Although it recovered after 1957, it nevertheless, failed to reach the pre-1952 level. In 1958 net investment in the private sector was estimated at £E. 90 M and in 1959 at some

1) Ibid.

2) Al Ahram : 11th November 1961.

3) Draft of the Plan.

4) Statement by the Vice President, July 1960 : in presentation of the plan objects to the members of the National Union. p. 130.

£E 103 M ⁽¹⁾. On the savings side, figures are very contradictory, but the N.P.C. estimated at £E 71 M in 1958 and in 1959/60 at £E 111 M ⁽²⁾.

There is evidence moreover, that business had not responded favourably to Government policies, partly for reasons concerned with Agrarian Reform, ⁽³⁾ as we have already seen, and partly for other reasons.

One was the increase in public interference in the economy, which undermined business confidence to such an extent that hoarding ⁽⁴⁾ money and smuggling it abroad became more and more common.

Another was the departure of foreign technicians and managers after 1956.

A third was the fact that post-1957 investments were largely in industries of a different type from those familiar to Egyptian business men.

Fourthly, the ambitious goals of the plan required a tighter public control of the economy and made the co-operation between the public and private sectors very difficult, especially as there was no adequate Machinery to ensure it and as there had been no proper consultation between the two in drawing up the planned projects.

1) N.P.C. : Memo No. 40 A.

2) N.P.C. : Memo No. 451.

3) See Section III.

4) Industrial Bank : 1960 Report,

7 — Public Enterprise & Socialism

During 1960 a series of nationalizations took place in Egypt. These started on February 1960 with the nationalization of the National Bank of Egypt. ⁽¹⁾ Already, partly-publicly-owned, all the shares of this Bank were now brought into the public sector. The private shares were converted into Government Bonds redeemable over twelve years and bearing 5 % interest. The conversion price was equal to the closing price of the shares at Cairo Stock Exchange on the day of nationalization. ⁽²⁾

Commenting on the nationalization of the Bank, the Bank itself said; "The National Bank of Egypt has for long maintained close relations with the Government in the interest of co-ordination of central banking policy with other sectors of economic policy. In this respect the significance of nationalization merely consists in the formalization of the firmly established tradition of full and mutual co-operation between the Bank and Government». ⁽³⁾ On the same day, Bank Misr was nationalized, its shares being converted into 5% State Bonds of 12 years. ⁽⁴⁾ The nominal value of these Bonds was fixed at £E 22.7, based on the closing price ⁽⁵⁾ of the Bank's shares on the Stock Exchange on the day of nationalization. The Bank was to continue as a joint-stock company.

The Minister of Economy gave two explanations for the nationalization of Egypt's oldest and by far largest private enterprise. The first was that the Bank was heavily indebted to the Government ⁽⁶⁾ : the second that it represented a « huge concen-

1) Decree Law no. 40 : 1960.

2) Bank of Industry : Annual Report of 1960.

3) National Bank of Egypt : Econ. B.m. no. 1. 1960, p. 3.

4) Decree Law no. 39 of 1960.

5) The assets of the Bank at the time were estimated at £E 110 M almost one-third of the total assets of all commercial banks in Egypt (**The Bank Misr Annual Report of 1960**). These included great shares in the capital of 27 Misr companies whose capital at the time of nationalization was some £E 20. M. (**National Bank of Egypt, econ. B.m no. 1 1960, pp. 33-4**).

6) Al Ahram : 12th December 1960.

tration of power" any misuse of which "would have a destructive effect on the economy ». ⁽¹⁾

The beginning of the end for private big business seemed very near, the Government stated that ; « the Regime cannot allow abuse of freedom of ownership », and that « attempts to secure cooperation from privileged business group had failed ». ⁽²⁾

On June 1960, Government acquired full control of raw cotton trade by the following measures ⁽³⁾ :—

1 — The indefinite suspension of the Alexandria Cotton market.

2 — The provision that the public sector should participate in the cotton trade by holding at least 50% of the capital of all institutions engaged in exporting raw cotton.

3 — The amalgamation of the smaller institutions engaged in the export of cotton into a number of bigger firms.

4 — The designation of Egyptian cotton commission as the only authority through which the trade in and export of raw cotton should be channeled.

On the 4th July, Government announced that import trade would be confined to the public sector, with a few minor exceptions. The National Bank of Egypt commented on this measure in the following words : «The reasons are obvious to anyone who had followed the economic development of this region in the last few years. The inclination towards an extensive planning of the economy, together with a traditional deficit in the balance of trade, increased the strain on foreign currencies. A system of priorities was necessary to control imports with a view to rectify the balance of trade and to channel the profits of foreign trade

1) Budget Report, 1960, p. 89.

2) Egyptian Economic & Political Review : April 1960, pp. 17-19.

3) National Bank of Egypt : Econ. B., No. 2 1961.

into the public sector in order to increase resources for financing the enormous expenditure on economic development » ⁽¹⁾

On the same month, industrial empire of Egypt's richest single industrialist, Abboud Pacha, was dissolved.

On July 1961, President Nasser announced the socialist laws, which in our judgement, aimed at the following ⁽²⁾ :—

First : The establishment of a strong public sector in industry.

For this purpose the following changes were made :—

1 — All Banks and Insurance companies and 50 of the most active companies in industry were completely nationalized. Their shares were converted into 15-years State Bonds negotiable on the Stock Exchange and redeemable wholly or partly after ten years. The market value of these firms was estimated at £E. 52 M, of which £E. 12.5 M. belonged to foreigners.⁽³⁾

2 — Government was to participate on the capital of 84 companies engaged in industry and construction. The Government share was to be no less than 50 % of their capital. Shares affected by this measure amounted to £E. 33 M of which 28.2% belonged to foreigners. ⁽⁴⁾

3 — Government published the list of 145 companies in none of which was an individual allowed to more than 10000 £E worth of shares. The excess shares were to be transferred to the State and compensation was to be paid in 15-years State Bonds. The estimated market value of these shares was £ 137 M, of which 10.7% belonged to foreigners.⁽⁴⁾

4 — Government provided that public building or construction contracts exceeding £E 30000 in value were to be awarded

1) National Bank of Egypt : Econ. B., Vol. XIV, no. 2, 1961.

2) The Socialist Laws : published by Department of Information, Cairo 1961.

3) Al Ahram : 9th February 1962

4) Al Ahram : Ibid.

only to publicly-owned companies. Private contracting companies, however, were permitted to qualify as 'public' by surrendering to Government at least 50 % of their capital.

By August 1963 all companies which were partly nationalized were now completely nationalized and the Minister of Transport announced the nationalization of 43 transport firms. ⁽¹⁾ Compensation to private owners was to be paid in 15-years State Bonds. The total value of shares affected was estimated at £E 134 ⁽²⁾ M.

The reasons for these further nationalizations were explained by the Minister of Industry ⁽³⁾ :—

a) The private sector was lagging behind the public sector in production and employment, this threatened the implementation of the national plan; and.

b) the public sector was growing at a rate of 19% per annum while the private sector was growing at only 8%.

Second : The expansion of private ownership of cultivated land.

For this purpose, the amount of land that could be individually owned was further limited to 100 feddans and farmers were exempted from paying half the price of the land distributed to them under the Agrarian Reform Act of 1952. They were also freed from paying interest on the instalments, which became the responsibility of the State. This second Agrarian Reform Act completed the distribution of over 800000 feddans amongst a quarter of a million families ⁽⁴⁾. The following table shows the position of land ownership after the announcement of the two Agrarian Reform Acts;

1) Al Ahram : 13th August 1963.

2) Ibid.

3) Ibid.

4) National Bank of Egypt : Econ. B. Vol. XIV, 1961, pp. 278-9.

Land Ownership after the two Agrarian Reform Acts

	1952		1961	
	Number of owners	area owned	Number of owners	area owned
Under 5 Feddans	2,642	2,182	2,920	2,040
5- 10 Feddans	79	562	79	530
10- 15 Feddans	69	1,291	69	1,300
50-100 Feddans	6	429	11	630
100-200 Feddans	3	437	5	500*
Over 200 Feddans	2	1,117	—	—

* Applies to estates of exactly 100 Feddans

Source : National Bank of Egypt. Econ. B., No. 3, 1961.

Third : The re-distribution of income.

A new general income tax was to replace the older one by which a ceiling was imposed on incomes. The following table compares the tax system before and after this —

Before Amendment		After Amendment	
Income Bracket £.E.	Rate %	Income Bracket £.E.	Rate %
Up to 1000	Exempted	Up to 1000	Exempted
1000- 2000	8	1000- 2000	8
2000- 3000	10	2000- 3000	10
3000- 4000	15	3000- 4000	15
4000- 5000	20	4000- 5000	25
5000- 8000	30	5000- 6000	35
8000-11000	40	6000- 7000	45
11000-15000	50	7000- 8000	55
15000-20000	60	8000- 9000	65
20000-30000	70	9000-10000	75
Over 30000		Over 10000	90

Source : National Bank of Egypt, Econ. B., Vol. XIV. 1961, p. 275.

Furthermore, a ceiling was set for the earnings and emoluments in corporate firms so that the amount received by any one person should not exceed £.E. 5000 annually. This was made applicable to all payments including salaries, attendances fees and allowances.

Four : The establishment of workers representation and participation in industry.

This was effected by two important legal provisions. The first stipulated that 25% of not distributable profits in any firm should be distributed among its workers and employees, in accordance with a prescribed pattern.

The second provision stipulated that workers and employees were to be represented on the boards of directors. Board members were to be not more than seven, of whom at least two were to be elected for one year directly from among the workers and employees of the company. The others were to be appointed by a Presidential Decree.

Simultaneously, new political organizations were introduced to express Egypt's socialist pattern of society.

In 1961, 250 members of the elite of the country, representing Trade Unions, Professional men, writers, journalists, teachers, the Federation of Industry, Chambers of Commerce, were appointed by the President of the Republic to examine the political situation of Egypt and report what measures were necessary to stabilise it. These people decided that the job should be given to Conference representing various interests, professional and geographical. By December this Conference was assembled. It contained 1750 members of whom 1500 were directly elected and the remainder appointed. To this Conference, President Nasser submitted a 'National Charter' : part six of this document which explains the *economic aspects of Egypt's socialism* is of relevance to our present subject⁽¹⁾.

1) The National Charter, published by the Information Dept. July, 1962.

Socialism, it held, should be based upon :

a) the creation of an efficient public sector that would pioneer in all fields and bear the main responsibility for the development plan : and,

b) the existence of a private sector that would, without exploitation participate in development within the framework of the overall plan. More explicitly,

1 — Infrastructure enterprises, such as railways, roads ports, airports, dams and air transport should be under public ownership.

2 — The majority of heavy, medium and mining industries should be publicly-owned, and any private ownership in these fields should be controlled by the public authorities.

3 — Light industry must always be competitive. Though this field is open for private enterprise, the public authorities must control it.

4 — all import trade and a major share of the export trade must be publicly organized. Internal trade must be at least one-quarter public within ten years; and,

5 — Investment is a national responsibility and should not be left to speculation. All Banks and insurance companies should be in public hands.

During the early months of 1963 a political organization, the Socialist Union was established on the basis of the Charter, and on March, 1964, the first Parliament was elected from among members of the Socialist Union. The first task of this Parliament was to prepare a Constitution appropriate for Egypt's new «socialist democracy».

By 1964, therefore, Egypt has become not only a country with a very large public sector but one which was fully committed to a socialist system politically and economically.