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THE STRUCTURE OF MODERN INDUSTRY IN EGYPT

BY

A. A. I. EL-GRITLY

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Faculty of Economics

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INTRODUCTION

(1) *Egyptian Industry: Early Development and Recent Growth.*

By the end of the eighteenth century, the crafts and industries of Egypt, which thrived under the successive Moslem dynasties, had fallen into almost complete decay.(1) The long process of secular stagnation began with the ascendancy of the Memlukes and was accentuated after the Ottoman conquest (1516) owing to the discovery of new trade routes, the neglect of communications, the absence of law and order and the imposition of excessive fiscal exactions which sapped the ability and the willingness to work and save. The destruction of the armed forces removed an important element in the demand for the products of industry, while the transfer of the elite of workers to the capital of the Ottoman Empire drastically reduced the size of the labour force. The process of disintegration had been completed when the scientists accompanying the Napoleonic expeditionary force reported the grim plight of traditional crafts after centuries of anarchy and oppression.

At the time of Mohamet Aly's accession to power (1805), the rudiments of life were provided for a decimated and indigenous population by scattered artisans catering mainly for the village market or for the market of an adjacent township. There were, it is true, a few thriving trades in luxury goods which ventured into the realm of exports on a limited scale, but the economy was primitive with little internal trade and virtually no external economic relations. After consolidating his authority, the Pasha inaugurated an ambitious programme of simultaneous investment in industry, transport, irrigation and agriculture. New cultures such as cotton, silk, indigo and sugar-cane were introduced or extended, while determined efforts were made to start education and to establish law and order. The programme of capital investment envisaged the attainment of a degree of self-sufficiency to meet most of the requirements of the armed forces which the Pasha mustered to challenge the supremacy of Turkey and to found his ill-fated Empire.

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(1) For a fuller treatment of the early history of Egyptian Industry see A. CROMER-BAY, The Economic Development of Modern Egypt, and A. SOLIMAN. L'industrialisation de l'Egypte.

The main emphasis was on munition-industries such as the manufacture of gun-powder, cannons, sabres, muskets and knapsacks, the construction of the Alexandria Arsenal and the shipbuilding and assembly yards of Bulak and Suez. But other industries were not neglected, although here again, the armed forces were the principal client. Under the guidance of foreign experts, cotton processing, mechanical spinning and weaving were introduced, and there were 44 cotton factories, some of them employing upwards of a thousand workers, in charge of two regional commissioners. The cotton textile industry consumed about a quarter of the country's cotton crop and supplied the home market and the markets of the Levant and the Balkans. The spinning jennies, looms and carding machines installed in the new factories were produced locally. Moreover, silk, flax and wool weaving, carpet making, the manufacture of fezes, candles, glass, paper and soap were expanded, and in the thirties, more than 70,000 workers were engaged in the construction and operation of state factories. As with the other branches of the economy, independent artisans were brought under a scheme of strict Government supervision. They were supplied with raw materials and tools at fixed prices, while the Government became the sole buyer of their finished products.

It is not proposed here to assess the results of Mohamet Aly's experiment[1] except insofar as it may provide some guidance for the future. In the absence of private investment on any appreciable scale, it was inevitable for the State to assume the role of entrepreneur if any progress were to be made. The scheme was entirely financed out of taxation and the profits from state trading, without recourse to foreign borrowing.[2] Owing to the "remarkable deficiency of [instructed artisans" and the lack of trained executives the Pasha engaged a host of Europeans to manage his enterprises and to administer the various monopolies. Foreign workers were imported in large number, while part of the export surplus was used to buy machinery first from France, and, after the lifting of the embargo, from Great Britain.

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(1) For an account of Mohamet Aly's economic experiments see "Report on Egypt and Candia" addressed to the Right Honourable Viscount Palmerston by John Bowring, British Parliamentary Papers, 1840, especially the appendices written by two British foremen at the behest of the author.

(2) Unfortunately, the distrust of international capital which the astute Pasha felt was not shared by his successors, who plunged the country in debt. Financial insolvency eventually led to foreign intervention and occupation.

Unfortunately, the investment policy of the Pasha did not achieve the desired objectives nor did it cause private investment to expand pari-passu with expansion in the public sector. There are many reasons for the failure of the factory system to develop in nineteenth century Egypt. In the first place, the country was engaged in a perpetual clash with Turkey and the Great Powers and the Pasha's imperialistic proclivities caused him to maintain large armed forces, which were a serious drain on the meagre man-power resources of the country and its national income. In the second place, the process of industrialization encountered technical difficulties of the first order of magnitude. Labour was scarce and unsuitable, and the use of conscripted, ill and irregularly paid labour was not conducive to efficiency in production. On the other hand, foreign technicians were unwilling to train Egyptian workers lest they lose their remunerative jobs. Excessive waste was prevalent in the construction, equipment and operation of state factories. New machinery was soon wrecked by inefficient handling, and replacements were frequent for lack of repair facilities on the spot. The amount of raw materials and fuel per unit of output was inordinately higher than in the manufactories of Europe, where the new methods of the "Industrial Revolution" were being introduced. The absence of coal or rapid streams necessitated the use of costly and awkward animal power. The lack of trained staff conversant with the technique of book-keeping rendered efficient administration and control impossible. Finally, the low purchasing power of the population, aggravated by the policy of scissors adopted by state monopolies, was a severe handicap to industrialization, while the free trade regime imposed on the country precluded the possibility of protecting industry from foreign competition.

Mohamet Aly was aware of the difficulties in the path of his development schemes. In an interview with Mr. Bowring, he expressed the conviction that the sacrifices were worth while for the sake of "accustoming the people to manufacture". The birth-pangs, he thought, were inevitable in an industrializing country and would disappear as the economy became more mature. Although the whole plan foundered after the Pasha's death, some temporary success was undoubtedly achieved. Mr. Bowring, who was critical of the venture as a whole, thought that the establishments for spinning cotton might be advantageously continued. He was of opinion(1) that low quality cotton

(1) *Ibid.*, p. 35.

cloth was the only article which injured commercial importation from Great Britain. However, during the reign of Mohamet Aly's immediate successors state factories were neglected and the coup de grace was administered by the suppression of the regime of monopolies by Said Pasha (1854–1863).

Little industrial progress was registered during the second half of the nineteenth century(1) despite the opening up of the country by an efficient net-work of railroads and the unprecedented influx of foreign capital. Various factors helped to attract foreign funds into Egypt, and, once the movement gathered momentum, to accelerate the rate of flow. The policy of successive rulers was designed to encourage foreigners to settle in the country by granting them substantial privileges and immunities. The capitulatory regime of the Ottoman Empire, of which Egypt was then a dependency, provided security and the legal framework for the protection of property. The growth of public administration, the establishment of law and order, the discovery of Egypt's potentialities following the spectacular expansion of cotton cultivation during the American Civil War, the interest shown in Egyptian affairs by the warring imperialisms of Western Europe, especially since the opening of the Suez Canal, and finally the execution of an ambitious programme of irrigation and land reclamation... all these factors combined to make Egypt a remunerative outlet for foreign capital.(2)

A study of the distribution of foreign investment at the beginning of the 20th century shows that the bulk of imported funds found employment in banking, land and urban development, transport and public utilities and other amenities necessary for the commercialization and urbanization of the country. Thus, in 1902, out of the total capital(3) of joint stock companies operating in Egypt, amounting to L.E. 45 million, the share of industry did not exceed L.E. 4 million, mostly invested in cotton and sugar processing. The explanation of the slow and rather tardy development of large scale mechanized industry in Egypt, and the reluctance of foreign capitalists to start new industrial

(1) J. E. Mocoan, Egypt As It is, Chapter XIV. See also J. Gerstner, Bericht u.d. Wirtschaft Verhältnisse Aegyptens 1905.

(2) A. Crouchley, The Investment of Foreign Capital in Egyptian Companies and Public Debt, passim. Cf. Roux, Le Capital Français en Egypte, l'Egypte Contemporaine, Vol. II.

(3) Including debentures.

ventures is not hard to seek. Lending to the Khedives, mortgage banking and the finance of the rapidly growing foreign trade afforded ample investment opportunities for those foreign capitalists who were anxious to keep their funds in easily realizable forms. For those seeking more permanent outlets, the large crop of urban and land development companies held the promise of quick returns in the form of "unearned increment" in a country with a rapidly growing population and a cash crop with world-wide demand. The rate of return on capital, the regulator of the flow of investment, was higher in trade and finance than in industry. On the other hand, the upper strata of the indigenous population invested their savings in acquiring land, and their speculative propensities were satisfied by the futures market in cotton.

Moreover, there was an understandable disinclination on the part of French and British capital to embark on ventures likely to compete directly with the economy of the homeland. After 1882, the sole aim of the British Administration was the extension of perennial irrigation and the area under cotton with a view to providing sufficient foreign exchange to meet the service of the large external debt. Other considerations had to be subordinated to the task of rehabilitating the country's finances and exacting the bondholders' pound of flesh.(1) It was thought more advantageous for all concerned to develop an economy complementary to, rather than competitive with, that of Great Britain, providing the latter with a steady supply of long staple cotton and a market for industrial products. Lord Cromer was convinced that it would be "detrimental to both English and Egyptian interests to afford any encouragement to the growth of a protected cotton industry", in Egypt. Similarly, Lord Milner wrote that the Egyptian market was of paramount importance to England owing to the growing threats to her international trade. The verdict of Mr. Rothstein sums up the effect of British Occupation on Egyptian industry. "In the course of their twenty-eight years' rule the British have not only not succeeded in building up a single manufacturing industry, but have effectually killed whatever possibilities there had been for one."(2)

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(1) The cultivation of tobacco was suppressed in order to impose high duties on imports. "The first result of British intervention was the complete disappearance of what remained of Mohamet Aly's educational enterprises", G. Young, Egypt p. 165.

(2) T. Rothstein, Egypt's Ruin, p. 307.

Finally, the whole atmosphere was uncongenial to the growth of local industry, and there was a widespread feeling that Egypt was destined by a divine disposition to remain an agricultural country. The low purchasing power of the population checked industrialization while the rich communities preferred imported goods.

Entrepreneurs were unwilling to initiate new industries liable to meet with intense competition from the industrially more advanced countries. Their fears were aggravated by the success of powerful wholesalers in convincing the public that any goods not bearing their distinctive mark were adulterated.(1) Certain standard brands had become so firmly entrenched, and enjoyed such widespread appeal among the masses that any manufacturer contemplating the launching of a new product would have had to contend with considerable consumers' resistance. The State was in no position to help industry as the greater part of public revenue was earmarked to the service of the external debt. Protection for infant industries was ruled out by the open-door system to which the dependencies of the Ottoman Empire were committed. Imported raw materials and machinery were taxed at the same rates as finished products. Railway rates were high, and there were crippling excise duties on a variety of locally produced goods, the most pernicious being the 8 per cent excise on locally manufactured cotton goods. British administrators were naturally prone to place orders in Great Britain and the main Government purchasing office was located in London. To escape discrimination, Egyptian manufacturers were forced to present tenders through foreign firms or to choose foreign sounding names and trade marks to help market local products.(2) Again, public adjudications frequently specified certain well-known foreign brands.(3) The Egyptian capital market was undeveloped, and interest rates were very high as may be judged from the fact that the rate of interest on state agricultural loans was 8 per cent at the beginning of the century. As a result of these difficulties, a pursuance of the history of industrial companies, at the

(1) Department of Overseas Trade, Report on the Economic and Financial Situation in Egypt, 1919, p. 15.

(2) Report of the Committee on Industry and Trade, 1917, p. 58. See also L. Lees, L'Industrie et l'Avenir Economique de l'Egypte, l'Egypte Contemporaine, Vol. XVIII.

(3) Report of the Cement Co. to the Committee on Industry and Trade, 1917. See also S. Sonnino, L'Industrie en Egypte.

turn of the century, discloses many discouraging failures.(1) Stock Exchange quotations of industrial paper were depressed, being frequently quoted below par.

The first two decades of the 20th century saw some industrial development. In the opening years of the century, there was a large increase in the rate of flow of foreign capital but it still clung to traditional channels. During the Egyptian South Sea Bubble (1905–1906) 160 new companies, with authorised capital amounting to approximately L.E. 43 million were formed. Excessive speculation in land produced a large crop of land companies, the majority of which did not survive the crash of 1907. Moreover, some industrial companies formed during the boom were unable to withstand the shocks and tribulations of the preliminary stages of the financial crash. After the crisis of 1907, "one transport company with a paid-up capital of L.E. 429,000, and no less than 26 industrial mining and commercial companies, representing a paid up capital of L.E. 2,251,000 had also gone into voluntary or forced liquidation."(2) Some were subsequently reorganized and had their watered capital structure scaled down after going into bankruptcy or voluntary liquidation. One effect of the breakdown of the boom was that capital fought shy of the industrial field.

In the twentieth century, the industries connected with the processing of cotton and sugar expanded considerably; the capital of companies in this category increased from L.E. 2,750,000 in 1902 to L.E. 4,018,000 in 1921. Moreover, by 1917, the Committee on Industry and Trade pointed out the existence of a number of large mechanically equipped concerns consuming considerable quantities of raw materials and employing large numbers of workers in the following fields of manufacturing industry: cotton spinning, sugar, salt and soda, cement, pottery, alcohol, flooring, clothes, beer, paper, rubber goods and spirits.(3) The first world war and the inflationary rise in prices engendered by the expenditure of foreign troops gave an impetus to local enterprise especially after the reduction in the volume of imports in the period of unrestricted submarine warfare. Some of

(1) Especially in the cement, soap, glass, pottery, paper, textile and sugar industries.

(2) A. Gendelman, op. cit., p. 68.

(3) In the textile industry there were firms employing 30 workers or more but the majority employed less than 10.

the new industries did not survive for long after the war. However, the nineteen twenties witnessed a rapid expansion in the industries producing building materials with Swiss and Belgian capital. The period also saw a new phenomenon, namely the rise of industrial and commercial concerns on purely Egyptian capital.

Table I shows the increase in the capital of industrial joint stock companies. It is significant to note that whereas the total capital and debentures of companies operating in Egypt decreased between 1921 and 1940 owing to the redemption of capital and obligations of certain undertakings operating reversionary concessions, and the liquidation, capital reduction and debenture redemption of some mortgage companies,(1) there has been a steady but slow increase in the capital of industrial companies since world war No. 1. (2) In the same period, there was some increase in investment in transport owing to the development of road and air transportation, the formation of shipping companies and the "Egyptianization" of others, presumably to avoid international double taxation and to qualify for Government subsidies. On the other hand, there has been no new private investment in water-works, as the task of providing rural areas with water devolved on municipalities, while existing plants were adequate to meet the expanding needs of the towns.

The total capital invested in industrial Joint Stock Companies, i.e. groups 4–7 in Table I, amounted, in 1921, to 7% of the aggregate capital of companies operating in Egypt. In 1930 and 1940 the percentage rose to 9 and 18.5 respectively. Most of the industries: sugar, alcohol, salt, milling, lamp glass, boots and shoes, cement, soap, beer vegetable oil, textiles, chemicals, depend on local raw materials. The cigarette industry, however, relies exclusively on imported tobacco, while some industries supplement local supplies of raw materials by imports. The increase in investment in some fields, e.g. the textile industries, is traceable directly to the tariff "reform" of 1930.

(1) The capital and funded debt of this category fell from L.E. 45,515,866 in 1925, to L.E. 17,157,533 in 1940.

(2) In the preceding analysis, the statistics of joint stock companies have been used as an index to the progress of industrialization. While this is a legitimate working assumption, we must guard against the belief that the increase in the capital of industrial companies invariably represented new investment, as some of it was due to the conversion of private firms and partnerships into joint stock companies and the formation of holding companies. On the other hand, account should be taken of new firms established by individuals or partnerships.

TABLE I.—CAPITAL AND FUNDED DEBT OF EGYPTIAN JOINT STOCK COMPANIES IN INDUSTRY AND TRANSPORT

GROUP	1883	1902	1921	1939	1935	1940
	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.
Public Utilities:						
(1) Transport by Land and Air	62,400	3,456,190	4,514,560	3,856,259	4,105,372	5,620,507
(2) Transport by Sea	—	513,326	810,358	843,356	860,063	1,235,520
(3) Water Companies	395,694	915,087	1,224,062	1,248,593	1,138,632	1,097,008
Industrial Companies:						
(4) Cotton and Sugar Processing	—	2,750,107	4,017,715	4,124,513	4,014,620	4,571,579
(5) Building Materials... ...	—	81,971	138,420	949,456	1,220,295	1,388,295
(6) Food Industries	—	554,069	1,440,001	1,327,232	1,164,712	1,561,280
(7) Other Industries	78,346	457,908	2,384,310	3,321,699	5,238,513	7,728,319
Total Capital of Joint Stock Companies	22,000,151	44,630,272	113,205,182	110,169,019	101,104,495	83,171,246

Source: Compiled from the Year Books of Joint Stock Companies operating in Egypt.

A further spurt to industrial investment occurred during the war that has just ended. With foreign supplies virtually cut off after Italy's entry into the war, local production expanded and firms were working to full capacity, with two or three shifts per day. The establishment of the Middle East supply Centre in 1940 helped to develop existing industries and to further interregional trade in order to make the area as a whole as self-sufficient as possible, thereby saving valuable shipping space. The Allied Expeditionary Forces placed large orders with local concerns, and in certain cases supplied them with technical assistance and equipment to overcome bottle-necks. The Armies established repair-shops and operated new factories in an attempt to supply the great military base with part of its requirements. Throughout the war, there were experiments in the use of hitherto neglected local raw materials and sources of power, and many factories turned to the use of mazout and oil seed cake in place of coal. New mineral resources were tapped and the production of oil expanded to a considerable degree following the intensive exploitation of the Ras Gareb fields. New machines were improvised and a beginning was made in the production of spare parts. Above all, there was a welcome increase in the supply of skilled labour, which may constitute the corps of labour necessary for a future developmental plan. Despite the imposition of an excess profits tax, industrialists made large gains owing to war scarcities and the inflationary rise in prices. (1)

(2) *Pioneering in Egyptian Industry.*

The early promoters in Egypt were almost all foreigners or local residents of foreign extraction. Their preference went for transport and public utility undertakings and the industries immediately concerned with the processing of agricultural raw materials, where there was little or no foreign competition to contend with, and where early monopoly profits were assured. Local savings and foreign capital were attracted to these industries by the overpowering need for preparing the crops for export and the resulting reduction in the cost of transport to the ports and thence to the industrial centres of Europe. Private investment in narrow-gauge railways, for instance, was induced by the difficulties and high cost of transport incurred whenever crops

(1) At the end of 1944, the wholesale price index number stood at 330 (June-August 1939 = 100).

were sent on horse-back from the fields to the larger towns served by Egyptian State Railways. The high "opportunity cost" of capital to industry confined the activities of the pioneers to pursuits yielding high profits commensurate with the rate of return on capital invested in commerce and banking.

At the outset, the scene was completely dominated by enterprising European promoters and financiers with excellent connections in Europe and Great Britain, the then world bankers par excellence. In the second half of the nineteenth century, they succeeded in acquiring extremely lucrative concessions to build water and gas works, tramways and provincial railways and to exploit mineral resources. They also bought factories and water-works from an impecunious Government anxious to ease its immediate financial troubles at any cost. Once secured, the right to exploit the concession was usually transferred to a company especially floated for the purpose. Thus, in 1857, a concession granted to a French engineer, Cordier, to build waterworks in Alexandria was sold to a French company, and in 1865 a similar concession for Cairo was transferred to another limited company. In the same year, the powerful French concern Lebon & Co. secured concessions to build gas works in Cairo and Alexandria. It also acquired a concession to supply gas to Port Said, which had been granted to a Frenchman named Mansoury. The French financier Pastre presided over the development of water works and later on transferred his activities to the development of flour-milling, his interests being taken over by a French firm Darbley. In 1860, Edouard St. John Fairman, a British merchant was authorized to link Alexandria and Ramleh by rail and the venture was afterwards sold to a British Company. In 1879, Edouard Easten arranged the sale of the Alexandria water system, then owned by the municipality to a British company, which subsequently absorbed the interests of Mr. Zerfudachi, a Greek Financier, in the Ramleh water system. In 1896, Baron Empain and a Belgian syndicate obtained a concession to operate electric trams in Cairo and in 1896, Mr. Edouard Cauderay, a public works contractor, secured a similar concession for Alexandria, which he operated in conjunction with a Belgian syndicate, the Compagnie Générale de Traction. In 1881, a French syndicate bought and developed the sugar industry, hitherto owned and managed under Government auspices. (1)

(1) This paragraph is based mainly on the historical records of the various companies

It will be seen that, at the outset, French capital and entrepreneurship predominated and that they were later re-inforced by British and Belgian capital. In the seventies and eighties of the nineteenth century, a new element appeared on the scene with the emergence in the promotional field of important local business houses and merchant bankers who played a leading role in the investment of European capital in Egyptian public debt, and later in the century, when the era of lucrative lending to the Khedives drew to a close, in the development of industry and trade. These pioneers were men of considerable means who could raise the capital for financing their projects either locally or through their close connections with the private banking houses of Europe, especially the French Banques d'Affaires. Beside their inter-related activities in the "sheltered" industries where conditions according to virtual monopoly obtained, some of them brought about grandiose schemes of trustification in the sugar, beer, cement and cigarette industries, thereby bringing the leading firms under unified control. (1)

It is interesting to study the promotional activities of local financiers and the sources of the funds which they invested in industry. Profits from commerce, private banking and money-lending in its multifarious forms enabled the syndicate of Messrs. Menasce, Cattaui and Sanua to invest in narrow gauge railways, and, later on, to merge their interests with those of an English firm. The fabulous profits realized in the cotton trade enabled merchants such as Yehia, Farghaly, Begerli, Salvago, Lascaris, Rolo, Pinto, Reinhart, Carver, Peel, Rosano etc., to invest in industries ancillary to their main pursuits (2) such as inland transport, cotton ginning and pressing, and later on, in shipping, insurance and cotton spinning and weaving. They combined their industrial activities with an extensive export trade in cotton, and their names figured on the prospectuses of all Companies of importance. One of the leading Egyptian industrialists had for many years been associated with public works in the Middle East

(1) Jay. Rivers was one of the founders of the Crédit Foncier Egyptien and his partnership with Sir Ernest Cassel was responsible for the formation of the National Bank of Egypt, the Sugar Company and the Kom Ombo Company.

(2) It might be recalled that the same situation obtained in England in the late eighteenth and early nineteenth centuries. "The promoters of the early canals and railways were for the most part men whose properties or business interests were likely to be benefited by an improvement in transportation facilities." G. H. Evans, British Corporation Finance, 1775-1850, p. 11.

in close conjunction with a British Consortium of engineering and financial houses. A powerful impetus was given to the activities of Egyptian promoters by windfall profits during and immediately after the first world war when the price of Sakellaridis touched the all-time high mark of L.E. 40 per kantar; hence the formation of a score of industrial companies in the early twenties especially in cotton processing.

Other examples may be cited. Profits from high-grade retailing and cigarette manufacture enabled Messrs. Lappas, Glanadis and others to start in the soft-drink and wine industry. Monopoly profits retained by Mr. Gozzika, the Alcohol magnate, were invested in the paper industry. The brothers Empain, who made huge profits out of the success of their suburban venture in Heliopolis, near Cairo, were among the leading promoters of electricity and transport undertakings. Frequently, refugees seeking asylum in Egypt have started businesses of a type with which they were associated in their country of origin. Thus, the brothers Behrend acquired a dilapidated rice mill at Rosetta near Alexandria, and gradually built it up into a prosperous business, finally converting it into a limited company with the participation of local capitalists. Since the revision of the tariff in 1930, direct investment by foreign industrial concerns has increased and some high ranking British officials undertook, on retirement, to promote new companies in co-operation with local and foreign financial interests.

It is worth noting that, owing to the practice of early redemption of debentures, preference shares and even ordinary shares adopted by companies exploiting reversionary concessions, investors' capital was frequently set free for re-investment, in the light of changes in the rate of profits returned by different classes of enterprise. Capital thus released, as well as that released by the nationalisation of railways and telephones, developed by private enterprise, went to swell the supply of capital in other branches of investment. Similarly, industries encountering a declining demand tended to contract and to transfer their accumulated amortisation quotas to new lines of production. Thus, gas companies turned to electricity generation and horse-traction and light railway undertakings acquired substantial interests in the car-passenger and road-haulage business.

In the twentieth century, and especially since the first world war many wealthy Egyptians joined the ranks of industrial promoters.

Hitherto, their main concern had been the acquisition of land which apart from its profitability in the days of high cotton prices, conferred upon the owner great social prestige, so much so that a man's place in society was a function of the size of his estate. Big landowners such as Badrawi, Wissa, Soltan etc., the Egyptian counter-parts of medieval European barons, have been led to invest in industry by the long-term depression of agricultural prices and the rising profitability of industry under protection. In the interwar period, the Bank Misr became active in industrial promotion and its cardinal service to Egyptian capitalism has been the introduction of the bourgeoisie to security investment. Other Egyptian promoters, came from politics and the Civil Service usually after a period of apprenticeship on the boards of foreign companies, where they acquired some insight into business administration. While some of these promoters worked in close conjunction with foreign financial interests, others were intent on launching all-Egyptian concerns.

The activities of Egyptian promoters have multiplied since the Armistice, and their plans have become more ambitious. For example, in the early months of 1946, five promoters, an ex-prime minister, an ex-regent, a former head of the State Legal Department, a big landowner and a versatile business magnate launched a L.E. 4 million company to build a gigantic fertilizer plant in the Delta, reserving for themselves 55 % of share capital. A large urban building and development company, with a capital of L.E. 1,500,000 has been formed as well as many textile, chemical and plastic companies with predominantly Egyptian capital. The marked success of the new issues shows that Egyptian capital and entrepreneurship are now venturing into branches of production where severe foreign competition is likely to be encountered. But, it seems certain that they have done so on the tacit assumption that adequate protection would be forthcoming.

The emergence of a class of veteran industrial promoters augurs well for the future of industrial enterprise in Egypt. For the role of the promoter is of paramount importance. He has to investigate new projects with a view to assessing their potentialities from the technical, marketing and risk standpoints. Once satisfied as to their merit, he has to draw a comprehensive scheme of financing, and to decide how far to commit his own resources and how far, and in what form, to draw on the capital of associates or the savings of

the public. He has to decide the nature of the product, the size of plant and to determine the co-efficient of factors of production which gives the least cost combination in the light of forecasts regarding the future demand for the product and the supply of the agents of production.

It must be emphasized that, in all these respects, the task of promotion in Egypt is immeasurably more arduous than in the economically more advanced countries and the risks more pronounced. The early promoters were faced with a dearth of technical experts of all kinds: engineers, chemists, accountants and surveyors to undertake the exploratory work, and it was necessary to resort to foreign experts, some of whom proved to be costly and inefficient. Promoters had to supervise every detail, however minute, and to rely on guesswork in the absence of reliable statistics of the national income and its distribution among the various strata of the population and the lack of figures of consumption, costs and such like data needed for business forecasting of the most elementary kind. They had no facilities for "buying in" services or component parts on the spot, thereby shifting part of the risk to other "subcontractors." In most cases, new firms had to train their own labour corps (2) and to establish repair workshops as an alternative to sending machinery to be repaired abroad. They were also handicapped by the lack of interest in industrial investment and the absence of underwriting facilities which are invaluable even to the most daring promoter. It is true that in industrially advanced countries, new entrepreneurs are faced with the problem of attracting resources. But there, new products are new only as assembled units, the component parts being common to a host of existing products. When a shift in demand occurs, labour and non-specific resources are diverted to produce the commodity for which demand has increased. (3)

The outcome of the above-mentioned difficulties was that, owing to deficient planning, many companies never commenced operations. Promoters belatedly discovered that the installation of the factory

(2) Most of the reports submitted by industrialists to the Committee on Trade and Industry (1917) mentioned the dearth of skilled labour and the prohibitive cost of importing foreign specialists among the impediments to success.

(3) Moreover, "in less advanced areas.....new enterprises while conferring advantages on those to follow have to incur costs and risks for which they are not compensated by external economies already in existence". K. MANDELBAUM, The Industrialization of Backward Areas, p. 4.

and its equipment with machinery would cost much more than they had anticipated. Large preliminary expenses had to be incurred, and these were a burden on the concern tantamount to a rise in the cost of procuring capital. Lack of market research was responsible for the decay of many companies. A notable example was that of Misr Fisheries, which had to suspend operations after incurring heavy preliminary expenses owing to inadequate demand for Red-sea fish. Insufficient initial capitalization and recurrent issues, with the risks attending such issues in an underveloped market, landed many companies in grave difficulties. Hence, the rate of mortality of new industrial and commercial companies has been high, and the period elapsing between incorporation and the distribution of dividends has usually been long. Moreover, low rates of dividend characterize the non-monopolised sector of Egyptian industry and many concerns have been in financial straits when the outbreak of world-war No. 2 gave them a new lease of life.

Despite these handicaps, there has been a marked growth in the wealth and power of promoters due to the smallness of their number. As Professor F. Knight remarks "the supply of entrepreneur qualities in society is one of the chief factors in determining the number and size of its productive units." The profits reaped by promoters were high because, as the same author goes on to say, "the income of any particular entrepreneur will in general tend to be larger (1) as he himself has ability and good-luck; but (2) perhaps more important, as there is in society a scarcity of self-confidence combined with the power to make effective guarantees to employees... The condition for large profit is a narrowly limited supply of high grade ability with a low general level of initiative as well as ability." (1) This condition was fulfilled in Egypt, until very recently.

Frequently, founders' shares of no-par value, or deferred shares were given to promoters in consideration for property handed over, concessions transferred or services rendered. As the holders were entitled to a large percentage of net earnings after an initial dividend distribution, any increase in the proportional contribution of other categories of share capital enabled founders' shareholders to participate

(1) Risk, Uncertainty and Profit, p. 288. The author also makes the apt remark that profits are high whenever European explorers who know what they are doing operate among natives who do not.

in the enhanced profits. Moreover, as they remained in control, they were in a position to determine the routing of earnings to ensure a share for themselves. Founders shares in strong monopolistic industrial, land, water and transport companies receive large profits and are highly sought after in the stock exchange. In the light railways group, however, they have not fared so well, some never receiving any dividend for the last twenty years or more, owing to the decline in earnings brought about by the encroachment of buses and road-hauliers. Besides, owing to the dearth of entrepreneurial talent, promoters are usually found on the board of directors of the companies which they help to launch, even after they liquidate their initial interests.

CHAPTER I

The Capital Market

In this, and the following chapters, it is proposed to analyze the capital structure of Egyptian Joint Stock Companies engaged in industry and to discuss certain aspects of the capital market.

(1) *Growth of the Joint Stock Company Form of Organization.*

The predominant form of entrepreneurial organization in Egyptian industry has always been the individual proprietorship. In the last decades of the 19th century, large scale capitalist enterprise was superimposed on a primitive industrial structure and a quasi feudal agricultural system. The Joint Stock Company made its appearance in Egypt first in the spheres of banking and the public utilities and then spread to industry proper. The early companies were almost all registered and financed abroad ; but, as we have seen earlier, the closing years of the 19th century witnessed the growth of the spirit of local enterprise and the emergence of Egyptian promoters whose projects necessitated recourse to advanced forms of entrepreneurial organization. The formation of Joint Stock Companies facilitated the concentration of large funds under unified management and control and the assumption of risks that would tax the resources of any single financier or a group of financiers.

There were other motives for adopting the corporate form. The device of limited liability enabled investors to avoid jeopardizing their private fortunes. "It is undoubtedly true", wrote Professor Knight, "that the reduction of risk to borrowed capital is the principal desideratum leading to the displacement of individual enterprise by the partnership and the same fact with reference to both owned and borrowed capital explains the substitution of corporate organization for the partnership". (1) The need for additional funds to finance expansion lies at the root of the current tendency to convert concerns into companies. Moreover, there was the desire to ensure the continuity of the enterprises, thereby avoiding the inconvenience caused on the death of a partner, even when such a contingency is provided

(1) F. Knight, Risk, Uncertainty and Profit, p. 252.

for by a joint insurance policy, by the appointment of trustees under the authority of the Meglis Hasby, i.e. the court which manages estates left to minors.

Until the 1914–1918 war, the stock markets of Egypt thrived on Government securities, Egyptian and foreign, and the securities of banks, land and public utility companies. But since then, industrial and commercial securities have been increasingly quoted and traded in the Coulisses. Since 1939, the war-bred inflation has caused a marked flight into equities and industrials, with a consequential phenomenal rise in stock quotations. For instance, on January 31, 1946, the shares of Misr Printing, Misr Ginning, Misr Spinning (Mehalla Mills) and Misr Silk were quoted at L.E. 19.50, L.E. 12.50, L.E. 25.50 and L.E. 28 respectively, (Nominal value L.E. 4) although at the outbreak of war they stood at or near par value.

From the very beginning, large scale industrial enterprise in Egypt was conducted under the corporate form. A comparison of the capital of industrial joint stock companies with that of all industrial capital shows the preponderance of the former. In the Industrial Census of 1937, the 312 largest establishments with capital exceeding L.E. 10,000 accounted for L.E. 25,800,000 out of a total "declared" capital of industrial establishments amounting to L.E. 31,400,000. In the same year, the official stock exchange year book gave the following figures for Companies engaged in the branches of industry covered by the Industrial Census :—

	L.E.
Mining	2,446,000
Cotton and Sugar Processing	2,902,000
Waterworks	1,042,000
Building materials	1,234,000
Food industries	1,388,000
Textiles, Tobacco and Miscellaneous.	5,058,000
TOTAL	14,070,000

Thus, about 56% of all industrial activity and approximately 60% of large scale industry is incorporated. (5) Moreover, owing to the existence of reserves and debentures, the proportion of corporate to

(5) In 1938, there were 1,460 partnerships and sociétés en commandite with a total capital of approximately L.E. 5½ million.

total assets would be much higher than the above figures suggest. (*) The rate of growth of industrial companies, measured by the increase in their capital and the accretions to reserves, is much higher than the rate of growth of the rest of industry. The growth of some industries has meant the expansion of a few companies, and in the leading industries: the textile, tobacco, building materials, cotton and sugar processing, the value of production by corporations is out of proportion to their numerical importance.

Tables I and II give some idea of the size of Joint Stock Companies operating in Egypt in 1911 and 1943, as measured by the amount of paid-up capital. The remarkable reduction, in the average paid-up capital, from L.E. 670,000 to L.E. 200,000, is due to the fact that at the earlier date, banking, land and public utility companies predominated, while in the last three decades there has been a marked increase in the number of small industrial and commercial companies which accounts for the increase in the number of companies having a share capital of under L.E. 100,000 from 60 to 210. In the industrial group, companies with a share capital not exceeding L.E. 200,000 accounted in 1943 for 80 % of the total.

TABLE I.—JOINT STOCK COMPANIES OPERATING IN EGYPT IN 1911 AND 1943

Paid up Capital	No. of Companies 1911	No. of Companies 1943
Under L.E. 100,000	60	210
100,000 to 199,999	33	42
200,000 ,, 299,999	13	24
300,000 ,, 399,999	13	16
400,000 ,, 499,999	15	13
500,000 and above	30	31
	164	335
Average Capital ... ...L.E.	670,000	200,000

Source: Compiled from the Year Books of Joint Stock Companies operating in Egypt.

(*) In 1939, corporations in the U.S.A. employed 90 per cent of the labour engaged in manufacture and produced 92 per cent of the value product. LYON and others. Government and Economic Life, p. 47.

TABLE II.—INDUSTRIAL COMPANIES OPERATING IN EGYPT IN 1943

Paid up Capital	No. of Companies
Under L.E. 50,000	54
50,000 to 99,999	19
100,000 „ 199,999	14
200,000 „ 299,999	6
300,000 „ 399,999	1
400,000 „ 499,999	3
500,000 and above	11
	108

Source: Compiled from Year Books of Joint Stock Companies operating in Egypt.

The recent growth of corporate enterprise has been accompanied by a marked increase in savings as may be gauged from the following indices. The returns of the Post Office Savings Banks show an increase in deposits from L.E. 47,962 in 1901 to L.E. 9,574,000 in 1939. Public deposits at the National Bank of Egypt increased from L.E. 4 million in 1913 to L.E. 36 million in 1920, while those of the Bank Misr increased from L.E. 201,000 in 1920 to L.E. 18,578,000 in 1943. Hitherto, savings have come mainly from the rich, but with the development of direct taxation and a possible rise in the general standard of living, the relative importance of the various sources of saving may change, and an increased contribution from institutional savers and the middle classes may be confidently expected.

Moreover, the present century has witnessed a continuous process of repatriation of Egyptian Government securities and those of Joint Stock Companies operating in Egypt; and the value of coupons presented for payment in foreign financial centres has been decreasing. The process was accelerated in the 'twenties, when part of the sterling balances accumulated during the first World War was used to buy Egyptian securities in foreign stock markets. Between 1902 and 1934, the proportion of public debt held in Egypt rose from 10 to 59 per cent., that of shares in Egyptian companies from 22 to 46

per cent., and that of debentures from 9 to 58 per cent. Owing to the increase in the percentage of shares held in Egypt, many companies have found it necessary to transfer their head office to Egypt. Early in the present century, interest and security investment received the blessing of high-ranking religious dignitaries and were reconciled with the canons if Islam, a further evidence of the relation between "religion and the rise of capitalism". Hence the increased interest in security investment. The returns of properties passing at death reveal a slight increase in the proportion of securities to the total value of property passing under the jurisdiction of the Meglis Hasby ; moreover, there is a large increase in the security holdings of companies and in the number of persons depositing securitues with the banks both for safe-keeping and as collateral security for loans. Finally, Egyptian participation in new joint stock companies has increased as may be seen from Table III, and the paid-up capital of companies entirely under the control of local capital has passed from L.E. 9 million in 1914 to L.E. 15 million in 1933, while that of companies containing capital from abroad fell from L.E. 92 million to L.E. 81 million. The ban on foreign investment in London and the exchange difficulties of many continental countries have resulted in the virtual stoppage of the stream of foreign lending to Egypt, except in the form of direct investment.

TABLE III.—EXTENT OF EGYPTIAN AND FOREIGN PARTICIPATION IN THE CAPITAL OF NEW EGYPTIAN JOINT STOCK COMPANIES, 1935–1943, L.E.

Year ending June	Total	Paid by Egyptians	Paid by Foreigners resident in Egypt	Paid by Foreigners resident abroad
1935	407,158	152,214	105,627	149,317
1937	345,801	226,884	63,104	64,813
1939	130,608	77,983	49,800	2,825
1940	239,800	100,085	65,640	94,075
1943	123,500	91,500	32,000	—

Source: Compiled from the Year Books of Joint Stock Companies operating in Egypt.

The Bank Misr has done much to introduce the Egyptian public to security investment, and Government borrowing to finance mortgage settlements and cotton purchase schemes in the thirties have also helped to create an interest in securities. The recent imposition of death duties may lead to an increased demand for investment in easily realizable form. Yet, despite a burst of floatation after the imposition of the new tariff in 1930, the number of new companies registered increased very slowly after 1935. It was 21 in 1937, 26 in 1938 and only 9 in 1939. In the last few years, new capital issues running into millions of pounds were over-subscribed within a short time of the opening of subscription lists. The pent-up demand for goods of all kinds is so great that promoters are actively engaged in starting new enterprises. In 1944, 12 new companies were formed; in the following year the number rose to 32 and it was 52 for the first seven months of 1946. During the latter year, Great Britain exported to Egypt L.E. 4 million worth of machinery of all kinds a quarter of which was for the textile industry. Excessive expansion on the strength of ephemeral increases in demand, and the current high cost of building and equipment are causing some anxiety, especially with regard to the textile industry where the re-opening of ordinary trade channels may create some distress to high cost producers

(2) *The Capital Structure of Egyptian Industrial Companies.*

Debentures.—An analysis of the capital structure of joint stock companies operating in Egypt in 1939 is given in Table IV.

It will be seen that the percentage of debentures in the capitalization of limited liability companies operating in Egypt is comparatively high, approximately 32 % in 1939. It is significant to note, however, that most existing issues are accounted for by the Suez Canal Company, mortgage, land and public utility undertakings. In 1943, the outstanding debenture issues were distributed as follows: 3 in mortgage banking, 7 in land development, 4 in transport, 1 in water distribution, 8 in industry, 3 in commerce and the hotel business. (3) With a few exceptions, industrial concerns have not, hitherto, relied on prior-charge stock for raising long-term capital. In this, the

(3) Some concerns in the cotton and food-processing industries had, before the war, gradually liquidated their outstanding debenture indebtedness; low interest rates during the recent war induced further redemption.

situation in Egypt differs from that obtaining in British industry, where in 1925-1926 it was estimated that "out of a total capital of 100 units, ordinary capital accounted for 47, preference 33 and debentures 20". In India, the corresponding percentages were

TABLE IV.—ANALYSIS OF THE CAPITAL OF EGYPTIAN JOINT STOCK COMPANIES, 1939

Group	Ordinary Shares	Preference Shares	Debentures outstanding
	L.E.	L.E.	L.E.
Agricultural and Mortgage Banks	5,820,850	94,000	16,163,624
Credit Banks	5,694,750	—	19,400
Finance Companies	486,338	—	35,317
Rural Land Development Companies	3,463,687	550,734	435,409
Urban Land Development Companies	3,249,772	—	410,590
Rural and Urban Companies ...	4,111,761	175,100	165,320
Land and Air Transport Companies	1,868,242	1,300,984	1,367,492
River and Sea Navigation Companies	864,140	—	4,000
Canal Companies	6,041,204	—	5,909,728
Water Companies	1,062,378	—	75,612
Cotton and Sugar Processing Companies	2,447,986	923,630	1,222,210
Building Materials Companies ...	1,353,782	—	—
Food Industries	1,407,846	—	75,670
Other Industrial Companies ...	5,405,218	692,50[illegible]	1,137,856
Commercial Companies	7,256,40[illegible]	51,1[illegible]	756,000
Hotel Companies	704,084	432,9[illegible]	162,376
Mining Companies	2,310,02[illegible]	121,87[illegible]	—
Miscellaneous Companies	827,166	19,10[illegible]	—
	64,365,735	4,401,956	27,961,544
	65%	5%	32%

Source: Compiled from the Year Book of Joint Stock Companies operating in Egypt.

75, 16 and 9 respectively. (1) In the U.S.A., throughout the twenties there was a decline in bank advances to industry accompanied by an increase in the magnitude of bond-indebtedness. "As a result there was a complete change in the relation between their (the companies') current debts in the form of notes and accounts payable and their fixed debt in the form of bonds and mortgages. (2)

The financial policies adopted by Egyptian companies were appropriate in the special circumstances of the country. It was quite legitimate for transport and other public utility corporations to issue debentures, thereby rendering their capital structure more complex. They operated monopolistic franchises, and their earnings were not liable to severe fluctuations, in view of the fact that they were faced with an inelastic and steadily expanding demand in a country where the rapid growth of the urban population and the rise in the real income of the Bourgeoisie led to increased expenditure on the amenities of life. Some of the companies operating in these fields were in the fortunate position of being allowed to exploit new concessions and to preside over the introduction of new substitutes for their services, and their monopolistic position was not challenged. Thus, tramway companies benefited by the restrictions imposed on passenger transport in the cities, and were allowed to operate passenger services in the interest of "orderly working" and "transport co-ordination". However, light railway undertakings have apparently lost their monopolistic hold for good, hence their inability to meet debenture interest in the inter-war period.

Similarly, it was plausible for mortage banks and land companies to issue debentures because their advances were amply secured by first or second mortgage on land and buildings. They used debentures to secure temporary accommodation and aimed, as far as possible, at synchronizing the maturity of their debenture issues with that of their long-term advances. On the other hand, few industrial companies have outstanding debentures. The most important issues, those of the

(1) Committee on Industry and Trade, Factors in Industrial and Commercial Efficiency.' P. S. LOKANATHAN, Industrial Organization in India.

(2) E. G. NOURSE, Financial Organization and the Economic System, p. 148. The writer estimates that the percentage of short-term debts to total debts declined from 80 per cent in 1922 to about 50 per cent in 1932.

Eastern Company and the Sucrerie-Raffinerie d'Egypte, were made to finance reorganization and consolidation schemes. That of the Viticole et Vinicole served to finance expansion and to pay for the acquisition of a complementary firm. In 1935, Misr Spinning and Weaving was obliged to issue debentures by the sudden fall in the value of inventories, and the prevalence of acute depression on the local cotton industry. In such circumstances, shares could only be marketed at a heavy discount, a course precluded by Egyptian company regulations.

With the exception of the Société Nationale de Papier which issued bonds before commencing operations, most issues were made long after incorporation, and nowhere did they figure as an integral part of the original financial plan. – In compliance with current company regulations, bond indebtedness is always below the amount of paid-up capital, a fact which prevents excessive trading on the equity and its attendant evils. In all cases, fixed charges for interest and sinking fund appropriations were found to be well below any conservative estimate of net earnings. For example, in 1940 the prior charges of Misr Spinning and Weaving for Government loans, bank advances and debenture interest amounted to L.E. 178,592, while net profits after provision for depreciation, amounted to L.E. 443,000.

The conditions of issue of Egyptian debentures conform to the familiar pattern. However, in the case of the Eastern Company, the nomenclature is misleading and the debentures have the attributes of ordinary shares, the company's 7500 participating bonds, of L.E. 100 each being entitled to 40 per cent of net profits after an initial allocation to reserves.(1) High denominations prevail and indicate that debentures were taken up by large investors. On the other hand, when sale to the public was contemplated, low denominations had to be resorted to. Thus, the first and third series debentures of Misr Spinning and Weaving, which were issued to the public, had a nominal value of L.E. 20, while the second series taken up by the National Bank of Egypt had a nominal value of L.E. 100. Redeemability is the rule, and in many cases provision is made in the profit an loss account for a debenture redemption fund, in which case retirement

(1) The share of the participating bonds naturally decreases part passu with their redemption.

proceeds regularly at par or intermittently in the open market. (1) Some issues are redeemable at a bonus, but lottery bonds are to be found exclusively in the mortgage field. Interest rates for industrial debentures do not exceed 5 per cent, while certain bond issues, e. g. those of the sugar company, carry the right to a variable rate of interest. Variations in the right of interest for successive issues by the same company indicate either a change in its credit worthiness for better or worse, or a change in the degree of ease or stringency in the money market.

Some industrial companies have issued bonds carrying a specific or blanket mortgage as an added attraction to investors.(2) But the intrinsic value of such guarantees should not be exaggerated and each case must be studied on its own merits. The guarantee is complete in the case of debentures of the Kenah and Assuan Railway Company, which are backed by a first charge on the purchase annuity payable by the Government. Similarly, the assets of land and urban development companies are easily realizable in normal times, and a mortgage on them is evidently valuable to investors. But the position of most industrial companies is radically different, and a mortgage on their assets, while imparting a false sense of security, has little value in practice. Their solvency depends on the size and stability of their earnings, and in the majority of cases the charge falls on fixed and highly specific assets, whose value in alternative uses, in the event of a compulsory winding-up, is negligible.(3)

It is now necessary to account for the fact that debentures have been very little used by industrial entrepreneurs. It is wrong to assume that the public does not favour bonds, as there is evidence to show that in the process of repatriation of securities, which has taken place since 1930, more debentures were bought than shares,(4) and the popularity of the lottery bonds of the Crédit Foncier Egyptien is notorious. The real explanation is that the security structure of limited companies varies as between different fields of investment and shows wide divergencies between countries at different levels of economic development. It is determined by the nature of the capital market, the objects of

(1) Early redemption of debentures becomes valuable to investors if the schedule of interest rates is expected to go up, but is a drawback in the opposite case.

(2) e.g. The sugar company, Misr Spinning and Weaving and Misr Printing.

(3) R. F. Fowler, The Depreciation of Capital, p. 107.

(4) Local holdings of debentures rose from L.E. 7,782,000 in 1914 to L.E. 21,000,000 in 1934. A. Crouchley, op. cit., p. 166.

the enterprise, its age, speculativeness, the composition of its assets and the vicissitudes of the trade cycle at the time of issue. In the U.S.A., "The complexity of the capital structure is related to the average asset size of corporations, the complexity growing as average size increases....." Corporations with funded debt have a relatively high ratio of fixed capital assets to total assets "(1) The new industries of Great Britain, oil, motor car, aviation, derive the greater part of their investible funds from the sale of shares. Similarly, the capital structure of the older forms of enterprise in Egypt is more complex than that of the new and untried ones.

Applying the above criteria to Egyptian industrial companies, we find that their simple capital structure is due, in the majority of cases, to their reliance on the resources of promoters and the re-investment of earnings. Under these circumstances, the surveyors of finance aspired to a higher measure of control than is afforded by debentures. Moreover, the majority of industrial concerns are of relatively recent origin ; thus, in 1937 out of the 82,000 firms which indicated the date of foundation, 55,000 were less than ten years old. It was wise not to saddle the capital structure with fixed charges at a time when the difficulties of growth and the presence of a large element of uncertainty were most felt. This is the more so in view of the high mortality rate among industrial and commercial companies in recent years.(2)

In the later stages of development, industrial companies may safely resort to debentures as a source of long term credit. In most countries it has been the practice to start with nothing but ordinary shares and with the development of capitalist enterprise, to proceed to preference shares and debentures. With the increase in the demand for investible funds, the joint stock company form of organization becomes the most convenient device for apportioning risk, income and control, and the multiplicity of securities(3) which it makes possible, enables the investor to adjust his holdings with regard to security, speculativeness and profitability as to conform to his subjective scale of relative

(1) W. Cleveland, The Pattern of Corporate Financial Structure, p. 168.

(2) Between 1922 and 1928, 34 companies with a capital of approximately L.E. 5 million ceased to exist. It is not possible to discover how far such early demise was due to absorption.

(3) "By varying the proportion of stocks and bonds and by special contract provisions, the risk can be divided in almost as many ways as there are investors". CH. O. Hardy, Risk and Risk-Bearing, p. 122.

valuations. Prior charge securities are the most appropriate device for soliciting investors in the lower income brackets. They appeal to the investors whose aim is to combine a stable, albeit moderate, return with a reasonable measure of safety for the principal.

Nor is this all. The issuance of small denomination debentures gives the investing class a wider range of choice. It permits some measure of diversification of holdings and tends to widen the circle of investors by catering for different attitudes to risk-bearing. Moreover, "diversification is a very effective method of reducing risk, so effective, indeed, that it may well be said to be the foundation of investment".(5) Astute promoters and executives should make debentures as attractive as those of Government, which are exempt from all taxation, or those of mortgage banks which hold out the chance of a fat lottery reward on redemption. Similarly, they may be advised to experiment with participating bonds and bonds convertible into stock at the option of the holder. The choice of securities must be guided by the state of the market and the cotton situation. In well-developed capital markets, equity stock is favoured in times of good trade, while during the "downturn" and "depression" phases of the trade cycle debentures predominate.(6) Company executives should make a choice between renewable short term loans and funded debt in the light of fluctuations in the short and long term rates of interest. Finally, certain developments may favour an increase in debenture financing. The growth of the business of Egyptian insurance companies and the establishment of investment trusts would create new demand for fixed interest securities. Some of the bonds of industrial companies may be declared trustee securities eligible for investment by Post Office Savings Banks, the Megles Hasbi and the Trade Unions. Moreover, the establishment of an industrial finance corporation would be of great help in marketing the debentures of concerns started under its auspices.

But it is of the utmost importance that the limitations and dangers of debenture financing should be clearly grasped both by promoters and by the investing public. The advantages of debentures are unduly

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(5) *Ibid.*, p. 183.

(6) In times of depression, "investors lose confidence in the ability of industry to pay dividends sufficient to justify the existing prices of shares, new issues of shares tend to decline and new investment tends to become concentrated on the safer fixed interest securities". F. W. PAISH, Movements in Interest Rates, in the volume "Some Modern Business Problems", Editor A. Plant, p. 183.

exaggerated in some text-books of Egyptian Law, which draw a clear-cut distinction between investment and speculation, or between safe and speculative securities, with debentures placed in the former category. Such a view is erroneous, as recent financial history shows conclusively the futility of the legal conception of a "sharp dividing line recognizing the bondholder as a lender of capital and the stockholder as a quasi partner in the enterprise." Economically, the line of demarcation between the two has become increasingly more blurred, especially in period of financial stress. (1)

For in such periods the deterioration of earning power strikes simultaneously at all classes of investors. Frequently, the machinations of directors force holders of prior charge securities to surrender arrears of dividends in order to pave the way for a fresh start, enabling the resumption of dividend payments all round. Two instances from the recent history of Egyptian Company Finance may be cited to illustrate this point. On July 16, 1932 the Société Anonyme des Chemins de Fer de la Basse-Egypte deposited its books with the Mixed Courts, with a view to reaching a "Compromise" with creditor and debenture holders. An agreement between Egyptian Delat Light Railways and debenture holders for a moratorium in respect of the interest due on October 1, 1910 was ratified at a meeting of debenture holders held at the time. One may add, in parenthesis, that protective clauses given to debenture holders against possible depreciation in the value of money are usually trampled upon, as witness the abrogation of the gold clause after Egypt's departure from the Gold Standard in 1931.

From a wider point of view, there are dangers in the excessive issue of debentures in periods of rising prices. This was amply proved by the difficulties experienced by Lancashire in the slump of the early twenties when textile companies were adversely affected by the increased real burden of fixed interest charges. Moreover, the existence of a large mass of funded debt introduces an element of rigidity in a country like Egypt, where the national income varies widely with changes in cotton quotations. Finally, the existence of a large body of indebtedness aggravates the downward spiral of deflation, as was amply demonstrated during the Great Depression. (2)

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(1) "Bonds do not afford sufficient protection against loss to compensate for the surrender of the profit element." Graham and Dodd, Security Analysis, pp. 3-6.

(2) G. von Haberler, Prosperity and Depression, p. 117.

Preference Shares:

Table IV reveals the comparatively small part played by preference shares, or actions de capital as they are called, in the financial schemes of Egyptian promoters. In 1943, there were less than 20 instances of companies with outstanding preference share issues distributed as follows: 1 in mortgage banking, 3 in land companies, 3 in transport, 3 in industry, 3 in commerce, 2 in hotels and 2 mining. Cumulative preference shares are the rule outside industry, and there are a few cases of the participating type, notably that of the sugar company, where shares are entitled to an initial dividend of 5 per cent and to an additional 2 per cent after the payment of a stipulated sum to ordinary shareholders. In many instances the statutes provide for redeemability at par or at a premium. The shares of the sugar company, for instance, are redeemable at a premium in the event of winding up, while the preference capital of the Cairo Water Company is redeemed by annual drawings. On redemption, shareholders usually receive "actions de jouissance" entitling them to a deferred share in profits, presumably as compensation for relinquishing a profitable investment.

Various motives have led promoters to issue preference shares, especially in foreign capital markets. In the first place, companies formed to exploit reversionary concessions in transport, public utilities, as well as mining companies exploiting wasting assets deemed to exhaustion have found it suitable to issue redeemable preference shares with the intent of refunding the paid-up capital during the tenure of the concession or the working life of the mine. Secondly, redeemable preference shares were issued to secure long term loans or to obviate the need for renewing short term loans, preference capital being extinguished when there was no further need for the funds, or, as in the case of the Filature Nationale d'Egypte, converted into ordinary shares when the need proved to be more permanent than had been anticipated. Thirdly, as in the case of the sugar company, preference shares were alloted to creditors with a view to alleviating the burden of fixed charges. On its reorganization in 1906, the company's capital was reduced by two thirds and then increased by the issue of preference shares to the tune of L.E. 923,636. It was then found necessary to give new shareholders some priority over existing ones as the company had fallen on bad times. (1)

(1) The use of preference shares in England increased in the late 18th and early 19th century in canal and railway construction. To induce investors to subscribe to projects which could not in the immediate future earn dividends, interest on all outstanding shares was frequently paid out of capital. Later, under the stress of circumstances this practice was modified and preference shares developed. G. H. EVANS, British Corporation Finance 1775-1850, p. 4.

Finally, the motive behind the creation of preference shares was, on occasion, the desire on the part of promoters holding founders' and deferred shares to trade on the equity, hence the small proportion of ordinary to total capital, including debentures in the following companies (Table V). Naturally, under such arrangements, the profits and losses of ordinary shareholders are magnified. In successful companies, the slice accruing to ordinary, deferred and founders' shares has been considerably out of proportion to their contributions. (1) Conversely, structural changes and the worsening of conditions of demand have led to disappointment in the transport and cigarette industries.

As in the case of debentures, the comparatively little use made of preference shares in Egyptian joint stock company finance is due to the fact that industry is still in its infancy, and in the initial stages only enterprising investors were attracted by non-agricultural fields of investment. However desirable diversity in capital structure may be, the absence of large preference issues has some countervailing advantages. It obviates rigidities and accumulations of arrears. Moreover, preference share holders relinquish control and the chance of large gains in quest of illusory stability. Their interests are usually sacrificed when reorganization schemes are worked out; in the process of adjusting shareholders' rights inter se arrears are usually wiped out. Thus, Light Railway Companies which issued cumulative preference shares at a time when they enjoyed virtual monopoly have recently suspended the payment of dividends. Arrears due to the preference shareholders of Egyptian Delta Light Railways amounted to L.E. 1,158,733 in 1942–43. (2) The Société Anonyme des Chemins de Fer de la Basse-Egypte has not paid dividends on preference capital since 1930. The preference shareholders of the Société Anonyme des Drogueries de l'Egypte have recently accepted a scaling down of 75% of their participation.

Moreover, unless they have some sort of veto in a protective covenant the interests of preference shareholders may be adversely affected and their participation diluted by the issue of higher ranking stock or mortgage debentures. Finally, the conflict of interest between

(1) In 1942 the ordinary dividend of the Société Egyptienne d'Electricité amounted to P.T. 120 while that of preference shares of the same nominal value was only P.T. 31.

(2) This sum represents the difference between accruing and paid dividends since 1930

TABLE V

Year	Name of Company	Ordinary or deferred capital	Pref. Capital	Debentures
1943	Egyptian Delta Light Railways	£ 110,000	£ 1,040,780	£ 725,700
1922	Tramways d'Alexandrie	333,000 shares of no-par value	Fr. 10,055,700	Fr. 6,081,000
1943	Gianaclis	£ 200,750	£ 300,000	£ 172,140
1927	The Sugar Company ...	Fr. 10,833,400	Fr. 23,943,900	Fr. 36,722,000
1943	Société Egyptienne d'Electricité	L.E. 40,000	L.E. 360,000	—

non-cumulative preference shareholders and ordinary shareholders which arises whenever profits are inadequate to provide both with a dividend, is usually resolved in favour of the latter, profits being withheld until they are sufficient to provide junior stockholders with a dividend. Nevertheless, in future preference shares may be expected to play a more important role in Egyptian industrial finance. For to solicit the lower income strata of the public for participation, greater variety of securities must be offered. Shares, having priority as to interest and principal, appeal to those who prefer a moderate degree of risk-bearing. Furthermore, owing to the fact that the law sets a ceiling to corporate borrowing in the form of debentures, those companies which exhaust their maximum may decide to experiment with preference shares.

Ordinary Shares.

It has been stated previously, that the simple financial structure of Egyptian companies is due to the comparatively recent growth of industry. Conscious of the fact that prior charge financing presupposes stable earning power, promoters have not thought it fit to burden the companies with fixed charges early in their life. We have seen that early investors came from the ranks of the well-to-do; hence the prevalence of high denomination shares which might seem a paradox in a country characterized by a dearth of investors. Of the companies operating in Egypt, those floated in England have a lower nominal share value than those floated in France or in the local market. Following the French law, Egyptian commercial codes prescribe high denominations i.e., L.E. 4, presumably to discourage gambling and the extortion of money from the poor. Now the law may have served this purpose, but it has forced promoters to forego one of the major advantages of Corporation finance, namely the mobilization of small savings. Shares of smaller denomination, e.g., L.E. 1 would be more appropriate to Egyptian conditions; for the smaller the denomination, the larger, other things being equal, is the range from which investors can be drawn. The fact that the vast majority of companies have availed themselves of the lower legal limit, and that many instances of downward revision of denomination, i.e. splitting-up, are on record, are indications of the need for a revision of the legal minimum. It may be added that the existence of high denomination shares is, in most instances, an indication that the stock of the companies concerned is closely held.

The current company regulations provide that in the event of the initial capital issue encountering an inadequate response from the public, the venture must be dropped and all subscriptions refunded. This provision is responsible for the fact that promoters endeavour to start with a very small initial capital, and, once the company is legally constituted, to proceed forthwith to increase the capital. Thus, the initial capital of the Société Vinicole et Venticole de l'Egypte was only L.E. 20,000; it was raised in the first year after incorporation to L.E. 220,000. Some promoters side-track the law by inviting subscription to a small initial capital while accepting all applications received in excess of the amount offered. It is usual for promoters and their sponsors to provide the entire initial capital and only to invite public subscription after the concern is firmly established. Among the reasons for the smallness and frequency of capital issues (*) are the private placing of shares and the absence of under-writing facilities at reasonable rates, protecting the promoter against the failure of an important issue owing to insufficient response on the part of investors or the sudden advent of a crisis in the money market. (*) In England, on the other hand, underwriting facilities are provided by syndicates of financiers, investment trusts and insurance companies, and some companies operating in Egypt with funds raised abroad, had access to the underwriting facilities of London. The Mosseri group of companies has been fortunate in that the Bank Misr was always ready to take up any unsubscribed part of the issues, with the intention of selling the securities later on either in the open market or by instalments over the counter. It must be noted, at this juncture, that the introduction of specialized underwriting facilities in Egypt at present is impracticable owing to the narrow extent of the market and the hazards attending the underwriting of newly established companies without past records.

It is not unnatural in a country passing in the early stages of capitalist economy to find many cases of both over and under estimation of the initial capital requirements of new companies. However, instances in which the initial capital is soon exhausted and the company is left high and dry of funds are more frequent. (*) Errors of underestimation

(*) The capital of the Société Nationale de Papier was increased from L.E. 182,000 in 1937 to 216,000 in 1938, to 240,000 in 1939, to 350,000 in 1940 and again to 360,000 in 1941, the year in which production started.

(*) D. Fraser, Capital Underwriting, pp. 11-14.

(*) " Il nous faut avouer que bon nombre d'affaires excellentes ont été compromises, des engagements contractés étant supérieurs au capital-actions des sociétés fondées ". E. Papayan, L'Egypte Economique et Financière, p. 41.

leading to frequent issues in the early stages of new companies, are due to lack of knowledge, inadequate planning, unforeseen difficulties of exploration entailing increased preliminary expenses or to fortuitous occurrences such as the outbreak of wars and the advent of sudden changes in the level of prices and costs. Conversely, capital estimates proved too high in some cases, whereupon the management either made no further calls and reduced the nominal value of shares or refunded part of the capital subscribed. In Egypt, as in the U.S.A. but unlike the practice of British promoters, there is a prejudice against the issue of partly paid shares despite the convenience of dividing shares into successive calls to meet expenses as they fall due, thereby avoiding the accumulation of idle funds. Nearly the totality of issued capital is paid up at once, and only in banking and insurance does one encounter instances of assessable shares. Thus in 1943, out of an issued capital of L.E. 16 million in the industrial group, L.E. 15½ million was fully paid.

The initial capitalization schemes of a number of companies certain property shares given to promoters and vendors for consideration other than cash. They are frequently resorted to for settling the claims of shareholders in constituent firms in the event of amalgamation or merger. In such cases, there is an inherent risk that promoters may write up the value of assets, especially when large sums are claimed for goodwill and other intangible items in periods of good trade, when judgement is tempered with optimism. The resultant watering of stock hampers the payment of dividends and forces a scaling down of capital values such as occurred in the case of the Eastern Company, the Sugar Combine and Associated Cotton Ginners of Egypt. (3)

(3) Commenting on the formation of Associated Cotton Ginners Ltd., Mr. Papasian drew attention to the lavish payments made to the constituent firms which were far in excess of their net worth. The stock-watering which occurred in the boom year 1905 was, however, alleviated by the gradual rise in real estate values, which enabled the company be get rid of its holdings of land at a profit.

CHAPTER II

The Capital Market (*contd.*)

It is now proposed to consider three problems connected with the capital market, namely the financing of the growth of joint stock companies, the marketing of securities and the control of investment.

(1) *The Financing of Growth.*

With a few exceptions, most industrial companies do not endeavour to maintain a stable rate of dividend but vary it from year to year according to earnings and the state of the cash reserves. The extent of fluctuations can be seen by comparing the meagre distributions of certain companies in the late thirties with the liberal war disbursements However, successful companies retain a sizeable proportion of earnings in reserves of various designations : general reserves, special reserves, contingency reserves and dividend equalization funds. Table I gives some idea of the extent of ploughing back of profits, but complete data is lacking owing to the fact that some companies do not file balance-sheets with the Ministry of Finance. In 1943, the ratio of ordinary corporate surplus less accumulated losses to capital was 12%

Table I.—Industrial Companies : Capital, Reserves, Distributed Profits and Profits Carried Forward, 1943

Group	Capital	All reserves	Distributed profits	Retained profits
	L.E.	L.E.	L.E.	L.E.
Cotton and Sugar ...	4,062,000	2,912,000	520,000	149,000
Building materials ...	1,461,000	1,107,000	254,000	(1) 20,000
Food	2,000,000	953,000	619,000	83,000
Other industries ...	7,969,000	3,255,000	1,273,000	(2) 228,00

(1) Accumulated losses L.E. 47,000.

(2) Accumulated losses L.E. 823,000.

Source : Compiled from the Year Books of Joint Stock Companies operating in Egypt.

in the sugar and cotton processing industries, 19% in building materials, 15% in food, but minus 0.57% in the rest of industry. The last figure is, however, misleading, owing to the existence of wide variations. Some companies have large accumulated funds while others have large accumulated losses. (1)

The disclosed reserves of industrial companies emerge as a result of the issue of shares at a premium, the revaluation of assets, capital gains arising out of the disposal of assets or trading in the company's own stock and of course out of profits withheld from distribution. Almost all statutes provide for a fixed appropriation to reserves, varying from 5 to 10% of net profits. Some statutes empower the management to distribute the entire profits, once reserves reaching a certain percentage of capital have been accumulated. In the history of the last decades and especially during the recent war, there have been numerous instances of corporate surplus being capitalized through the issue of bonus shares, while in some instances profits were used to liberate the unpaid part of share capital. Thus, in 1918 the Filature Nationale d'Egypte trebled its capital by appropriations from the profits of the financial year 1917-1918. In 1943, the Industries Meunières d'Alexandrie doubled its capital by converting part of the extraordinary reserves, and new shares were distributed pro-rata among shareholders. Other important instances are those of the Société Egyptienne de Minoteries et de Silos, Egyptian Salt and Soda, the Filature Nationale and the Industries Fibres Textiles.

The motives behind the ploughing back of profits and their subsequent capitalization are heterogeneous. In monopolistic concerns, it is a convenient device for avoiding charges of profiteering which arise whenever dividend distributions bear a high percentage to capital and market quotations are deemed too high. In industries operating under State regulation, such raising of capital may operate against the interest of consumers if the companies are allowed to charge prices or rates, sufficient to guarantee a fixed rate of interest on an inflated capital structure. It is sometimes resorted to to defraud the exchequer, when the latter's share in profits is an agreed percentage after a stipulated initial dividend is paid on existing capital. But aside from these less-commendable motives, the main reasons for

(1) e.g., in 1943 the Nestor Gianaclis Company had accumulated losses amounting to L.E. 839,000.

withholding profits are (*a*) to finance the growth of undertakings and the expansion of productive capacity, thereby escaping the cost and uncertainty of new issues, (*b*) to add to the working capital, (*c*) to provide for stability through the creation of dividend equalization funds and (*d*) to write down the book value of intangible assets. (1)

The policy of ploughing back profits has been of paramount importance in financing the growth of industry in many countries. In Great Britain "until about 1855, firms were largely self-financed out of profits". (2) Many industries have expanded on the strength of accumulated earnings without much reliance on the sale of securities, the outstanding example being the phenomenal growth of the automobile industry in Great Britain and the U.S.A. (3) In recent years, corporate savings in the former country have become the principal source of savings, and in 1934, out of total savings of L.E. 379.6 million undistributed profits accounted for L.E. 156 million. (4) According to Mr. J. Ellwood Amos, 49% of new corporate capital formation in the U.S.A., between 1923 and 1929, came from corporate savings which amounted to 45% of net profits. (5)

The practice of self-financing has recently come under heavy fire, and the ill-fated undistributed profits tax in the U.S.A. (1935–39) was the culmination of a campaign against it. It was contended that the sovereignty of shareholders is infringed if they are made to save against their will. Under the influence of monetary under-consumption theories of the trade cycle, increased spending was advocated as the remedy for trade depressions, and the emphasis was shifted from saving to spending. Moreover, speculative holders were opposed to the practice, as their interests were better served by a policy of liberal dividends with the prospect of capital gains from stock-appreciation. Finally it was alleged that the reinvestment of earnings by joint stock companies

(1) In Egypt, "Les sociétés nouvelles bien gérées se contentent peu de distribuer des dividendes pendant les cinq et peut-être les dix premières années, mais par contre elles accumulent des réserves afin de développer leur moyen d'actions". - T. Amin, Placement de Valeurs Mobilières, Egypte Contemporaine, 1934, p. 473.

(2) Clapham and Berr, British Industry, p. 189.

(3) L. H. Seltzer, A Financial History of the American Automobile Industry p. 270.

(4) C. Clark, National Income and Outlay, p. 185. The other two important channels were the obligatory saving funds of local authorities and saving for security purposes by the working and middle classes.

(5) The Economics of Corporate Saving, p. 120.

leads to a maldistribution of the supply of investible funds. The twin ends of a rational distibution of resources, *i.e.*, the maximization of returns of capital and the equalization of its marginal productivity between different uses, would be stultified if entrepreneurs were in a position to obtain capital without being subjected to the supreme test of the market rate of interest, especially if they reinvest retained profits in a declining industry. "If capital cannot be obtained at the market rate, then it is a sign that investors think that capital has a greater productivity elsewhere. (1)

It is now necessary to examine whether such strictures regarding the effects of self-financing on the mobility of capital and the flexibility of the economic structure are germane to Egyptian conditions. It is submitted that in Egypt questions of expediency outweigh these weighty theoretical considerations. In view of the high cost of securing capital in an imperfect and deficient market, and the difficulties of obtaining medium or long term credit from the banks, it is idle to contend that self-financing withholds part of the supply of savings from the market "where the floatation of new securities should accelerate the flow of capital into those undertakings which answer the greatest need and retard its flow into those enterprises with less justification for expansion". Moreover, the majority of Egyptian industrial companies are small family concerns falling entirely under the control of majority owners, and the distribution of available profits reflects their scale of relative valuation. In such circumstances, "The legal distinction between the small company and its shareholders is, perhaps, of minor importance for economic analysis, since the behaviour of the company is likely to be dictated by those who have provided its resources." (2) In the larger companies, it is open to those who disapprove of the dividend policy to organize a fight or look for alternative employment for their funds. Finally, the stipulation as to reserves is always embodied in the memorandum of association which is presumably consulted by shareholders.

(2) *The Marketing of Securities.*

Mention has already been made of the practice whereby syndicates of promoters and their backers, staking their funds on new ventures in the hope of Capital Appreciation, subscribe the entire initial capital

(1) R. F. Fowler, The Depreciation of Capital, p. 111.
(2) R. S. Edwards, in a review of Mr. Amos' book, The Economics of Corporate Saving. Econ mica. 1940, p. 106.

and hold the securities until a public issue is made. Thus, of the 150,000 shares of the Gabbary Co., 136,250 were allotted to Mr. Bacos, 5,000 to Mr. Salvago, while the remainder was taken up by the five remaining signatories of the memorandum. No public issue was made on the company's inception, but later on the L.E. 5 shares were sold in the Bourse for L.E. 12. The original capital of the Bank Misr was subscribed by 125 persons (average holding L.E. 640) and, in 1922, the capital of L.E. 269,184 was divided between 6,730 shareholders (average L.E. 40). (1) An analysis of companies floated during 1943 shows that the number of original subscribers ranged from 7 to 24. Sometimes the original subscribers retain large holdings and after creating an interest in the Company's paper by propaganda, wash purchases and matched sales, proceed to unload at a profit.

The most prevalent method of floatation is that of private placing and the sale to existing shareholders especially when the statutes provide for pre-emptive rights, in which case shareholders are allowed to subscribe to new issues in the proportion which their holdings bear to outstanding capital. Such a practice is a safeguard against the dilution of shareholders' rights and ensures them a fair share in the enhanced profits if the enterprise turns out to be successful. In some industries, shares are very closely held and the securities of the smaller companies are not quoted on the stock exchange but are dealt in privately over the counter, or in the coulisses (Hors Bourse) by brokers, owing to the limited interest displayed in them. Unlisted securities are naturally less liquid, and their market is narrower than that of the listed ones as their prices are recorded only in the private bulletins of stock brokers.

Direct floatation by means of a prospectus has hitherto been a comparatively rare occurrence, except for the large and well established companies launched under the auspices of powerful syndicates of promoters. This is due to the smallness of the circle of investors and the fact that small issues cannot bear the high advertising and underwriting costs, which together with other preliminary expenses, raise the real cost of procuring capital to small concerns. Moreover, small issues do not guarantee a continuous market and, if quoted in the exchanges, would be subject to severe fluctuations in price. Nevertheless, with the development of industry, the number of securities

(1) In 1934, there were 9,350 shareholders (average holding L.E. 100.

listed on the exchanges has increased steadily from 19 in 1903 to 144 in 1930, and most of the increase has been in the industrial and commercial groups. In the latter year, only 20 per cent of all securities issued was not traded in the bourse or "en coulisses", but only 101 out of the 226 companies in existence on December 31, 1930 had their securities listed in Egypt;(1) the non-listed securities mostly in the industrial and commercial groups, were never the subject of a public issue.

Current regulations require companies making public issues to apply to the Bourse for listing and permission to deal in the new securities, within one year of the date of issue; and it may be confidently anticipated that with the growth of the investment habit, the stock exchanges of Cairo and Alexandria will have a major role in appraising existing securities and in indicating new lines of investment. As they now stand, both markets are entirely under the control of foreigners, and there is not a single Egyptian name on the list of brokers. The whole business is enshrouded in mystery and the public looks upon the Stock Exchanges as a high class gambling casino. The language of dealings, forms and correspondence is French, and until 1940, quotations were made in a galaxy of currencies. Moreover, it is felt by many that there is a wide disparity between the knowledge and information commanded by dealers on the one hand and the investing public on the other. Such a state of affairs is not conducive to the rapid development of security investment. The language of the land should gradually become the official language, and Egyptian nationals must be allowed in so as to dissipate the prevailing feeling that the fortunes of investment in Egypt are exclusively in the hands of foreigners.

Finally, mention must be made of an institution, found in the capital markets of Europe and the U.S.A., which may with advantage be introduced in Egypt: viz., investment trusts. They act as intermediaries between small savers and the capital market and the large resources at their command enable them to recruit able financiers, and to undertake large investment operations on a more diversified basis than their shareholders aspire to do on their own. The transfer of risks to specialists and its diversification lead to a reduction in the risks of holding securities, especially as their portfolios include

(1) J. Economopoulos, Les Valeurs Mobilières en Egypte, l'Egypte Contemporaine, Vol. XXIII, p. 33.

Government securities, commercial and industrial securities involving various degrees of risk. These institutions are eminently suitable for the economically backward nations, where the public is blissfully ignorant of the jargon and intricacies of investment.

(3) *The Control of Investment.*

Until the first World War, the Egyptian saving public, consisting almost exclusively of rich land owners and merchants, did not manifest any readiness to invest in industry or to place its funds in stocks and shares. The inter-war period has, however, seen the beginning of the process of depersonification of the saver-investor nexus, characteristic of capitalist society. Among the factors responsible for this development may be cited the growth of rational consciousness, the collapse of agriculture, the emergence of a professional class not acquainted with agriculture and the spread of education. The investing habit may confidently be expected to grow and to filter down to the lower income strata of the population, and this raises the question whether it is desirable to tighten the existing legal controls on investment in joint stock companies. At present, these are contained in a few articles in the Mercantile Codes and in a series of ministerial ordinances promulgated piece-meal since 1899[1]. They deal with the formation of companies, the protection of shareholders' equity and embody certain socio-political regulations to ensure a share for local capital and labour.

(a) Formation: Article 4 of the National Mercantile Code (article 46 of the Mixed Code) prescribes, as a condition precedent for the establishment of a new company, the promulgation of a royal decree approving the memorandum and articles of association and authorizing the company to commence business. The procedure is for promoters to apply to the Presidency of the Council of Ministers, which refers the application to the Legal Department, the Contentieux de l'Etat; the latter examines the relevant documents with a view to ascertaining whether the legal requirements are complied with before sending the application to the Ministry of Finance where a special committee scrutinizes the financial structure and provisions. If everything is found in order the requisite decree is issued. This cumbersome procedure should be simplified by forming a joint committee of the departments

[1] Prior to that date, foreign companies were governed by the laws of their countries of origin. However, in 1876 the capitulatory powers condescended to sanction a decree requiring companies operating in Egypt to register with the local commercial tribunals.

concerned in order to avoid departmental procrastination. The delay in issuing the requisite decree may cause serious embarrassment to promoters, in view of the legal stipulation that at least a quarter of the subscribed capital must be paid up before the application is filed; in some cases, large sums may be immobilized for a long time. It is also necessary to provide adequate safeguards against political abuse of the power to withhold registration.(1)

(b) Protection of Investors: there are miscellaneous provisions for ascertaining the bona fides of the enterprise and for protecting the equity of shareholders. In the first place, the issued capital must be entirely subscribed, and at least 25 per cent of the nominal value (minimum L.E. 1) paid-up before the company is legally constituted.(2) Promoters must file, with the application, an affidavit to the effect that this provision has been complied with, together with a list of subscribers showing the number of shares allotted to each and a certificate from a recognized bank stating that the statutory minimum subscription has been deposited with it. The memorandum and articles of association, together with the decree constituting the company, must be published in the "Journal Officiel".

Secondly, the powers of the general assembly to modify the memorandum are clearly enunciated. It may not effect certain modifications, e.g., increase or decrease in capital, amalgamation with another concern, unless it is given explicit powers to do so in the memorandum. Changes in the approved scheme of distribution of profits require the concurrence of all shareholders, preference and ordinary, as well as holders of "founders" shares. Certain modifications, such as the alteration of the object of the company, require a special quorum and a special majority of those present and voting. After incorporation, the company is debarred from issuing shares at a discount and from issuing new securities carrying privileges or immunities exceeding what is enjoyed by those in existence. In order to avoid excessive recourse to prior charge financing, new debenture issues must be sanctioned by the Assembly and may not exceed the paid-up capital at any time.

Finally, a number of interesting provisions regulate the issue of founders' shares and actions d'apport, i.e., shares issued for consideration

(1) A company launched in 1943, the Gaafrieh S.A.E. has not yet received legal recognition, and ugly rumours are rife.

(2) All shares must remain nominative until fully paid-up.

other than cash. The former may not be issued unless provided for in the memorandum and can only be given in exchange for patents, concessions or other intangibles, the pecuniary value of which is difficult to assess. They participate in profits only after an initial dividend of not less than 5 per cent has been distributed to shareholders, and then, their share may in no way exceed half the remainder of profits available for dividend. Furthermore, founders' shares do not carry the right to vote. The "actions d'apport" are not transferable within the first two years after registration. As in the case of founders' shares, details of these "real" shares must be embodied in the memorandum; and the issue of new ones, within the first two years of the company's life for consideration exceeding 10 per cent of the capital requires the sanction of a special majority of the general assembly. Moreover, promoters must apply to the President of the Local Mixed Tribunal for the appointment of experts to evaluate the property taken over, if, at the first meeting a quarter of shareholders, owning 10 per cent of stock, ask for such procedure to be adopted. The Statute Books of most countries embody similar theoretical safeguards designed to curb the abuses connected with the issuance of property shares and prohibiting the issue of shares not representing a corresponding contribution to corporate capital. In the U.S.A. such safeguards are inserted for the protection of creditors. Thus, "if a company falls into bankruptcy and if it is determined by the trustee that the directors paid one million in stock for property which was worth to the company no more than 100,000, the condition of legal over-valuation is present, and those persons who have received the stock in payment for property at this excessive valuation, may be compelled to pay, if they are able to pay, such part of the excess value as may be necessary to pay the debts of the company.(1) But it is easy to exaggerate the significance of these safeguards and to minimize the obvious technical difficulties involved in their enforcement. Such intangible elements as good-will, based as they are on estimates of future profitability, do not lend themselves to exact measurement. In the judgment of investors, psychological factors tend to outweigh any dispassionate appraisal of the technical factors of security analysis. Moreover, the intelligent manipulation of accounts, skilful window-dressing and the paucity of published data are aggravating factors. In the balance

(1) Mood and others, The Business Corporation, p. 230.

sheets of the acquired concerns, earnings may be fictitious owing to inadequate provision for depreciation. Finally, any intertemporal comparisons of value may be vitiated by changes in conditions of supply and demand, and in the value of money.

Thirdly, there are provisions requiring all companies to elect two Egyptians to the Board of Directors, to reserve 75 % available jobs for Egyptian nationals and to earmark a quarter at least of all public issues for sale in Egypt, provided that 80 per cent of capital thus issued is reserved for Egyptians.(1)

In the period of feverish activity preceding the crisis and financial panic of 1906, issues were heavily oversubscribed, mushroom companies were floated for no defined purpose and securities multiplied in value before any substantial part was paid up.(2) The excesses of the boom and the wave of liquidation which came in its wake caused the Government, in 1929, to issue regulations governing all dealings in security markets. Thus Stock Exchanges were regulated for the first time. It was decided to admit to the floor a capital of not less than L.E. 75,000 in the case of spot dealings, and of L.E. 150,000 for dealings "à terme".(3) Foreign securities were not admitted unless they were listed in the exchanges of their countries of origin ; and subject to judicial review, the Exchange Committees were authorized to refuse admission. The Stock-Market regulations have been tightened since, and in 1940 an edict was passed requiring all public issues to be presented for inclusion in the official list of the Exchanges,(4) which makes them liable to publish annual balance-sheets.

Properly administered, the regulations in force afford some measure of protection against fraud, manipulation, the tampering with the reckoning of profits and the dilution of stockholders rights. However, some of them may be frustrated by the difficulty of combined action

(1) Foreign companies, whose goodwill depends on maintaining cordial relations with the public have, of late, allotted directorships to Egyptians up to the irreducible legal minimum.

(2) In 1905, Lord Cromer warned the public "against undue confidence, in investing in speculative and ill founded enterprises, of which the capitals excessive, the administration charges unduly high and the area of exploitation vague and in great measure conjectural". A. CROMER, The Making of Modern Egypt, p. 350.

(3) Since the first World War, short selling and margin buying have been suspended and all transactions are now for cash and immediate delivery. The small extent of the market, the smallness of capital issues, the lack of professional speculators with adequate means militate against the maintenance of future dealings.

(4) Journal Officiel, April 20, 1940. Companies with no public issues to show may not be admitted until at least 5 years have elapsed since their incorporation.

on the part of shareholders, the prohibitive cost of litigation and the impossibility of scientific property-valuation. Moreover, as recent financial history in France has shown, the most stringent legislation is worthless if its administration is lax. Unfortunately, this is so in the case of Egypt(1) where many of the regulations, which elicited severe protestations on the part of foreign financial circles, have not been effectively enforced.

Company Law Reform.

Company law reform has been a perennial subject of discussion in Parliament and in the Press. It is frequently alleged that the foreign controlling interests retain the substance of power while the Egyptians sitting on the Board, being strawmen, are suffered for the sake of compliance with the letter of the law. There has been much criticism of the conduct of certain ubiquitous guinea-pig director, drawn mainly from the ruling clique of professional politicians, whose high sounding names adorn the prospectuses and annual statements of companies and whose presence placates the uninitiated public and imparts market ability to securities. Unable to pronounce upon the validity of the facts and claims put before it, the public is swayed by the presence of these eminent citizens, trusting that they would not allow their names to appear on published statements unless they were convinced of the authenticity of the facts embodied therein. The Boards exercise much foresight in choosing active politicians with a good chance of riding again in the frequent reshuffles of the Cabinet, in which eventually their goodwill would be highly appreciated in smoothing any difficulties arising between the Government and the company, in securing concessions, tariff adjustments, Government orders and in the arbitration of taxation and labour disputes. It is alleged that the enlisting of retired top ranking civil servants at high emoluments is due to their insight into the multifarious ways of dodging the law and that certain foreign powers use lucrative directorships to curry the favours of unscrupulous politicians.

(1) *See* Report of the Department of Overseas Trade, Economic Conditions in Egypt 1931. The report refers to the category of regulations which we labelled "socio-political". Sadek Bunsis Pasha, an ex-government commissioner at the Stock Exchange, remarks that some companies are not paying the annual subscription to the Exchange and their securities are therefore struck off the list, although they are legally bound to have their securities listed. Revue Al Quanon Wal Iktisad, Vol. VIII p. 150 and f.f.

The agitation for reform has increased since the cessation of hostilities in 1945. It resulted in a new member's bill now (1946) under consideration by the Finance Committee of the House of Representatives,(2) the main provisions of which are summarized and commented upon in the following paragraphs.

The draft law prohibits civil servants from joining the boards of companies or accepting appointments as advisers or managers, except in the case of companies in which the government is a shareholder. This is a commendable measure aiming at preventing public officials from falling under the influence of powerful financial interests. The draft also provides that persons occupying posts of ministerial rank may not, within 3 years of relinquishing office, join the board of, or act as managers or advisers to any company operating a concession or receiving a Government subsidy, if such persons had been previously connected with the concern in question in any of the above-mentioned capacities, unless they had been among the founders. But the possibility of abuse of power is not limited to concession companies, being equally present in the case of companies with an interest in tariff matters and Government adjudications. A vigorous campaign for bringing to book any politicians suspected of such abuse would, it is submitted, yield better results than can be achieved by such legislation, which however commendable in aim would certainly lead to a reduction in the supply of talent to politics or to business, especially in view of the frequent reshuffles of the cabinet.

Another provision prohibits any person from being a director of more than 10 companies at the same time, or of acting as chairman or managing director to more than three. Now, the dearth of managerial ability with the qualities required for managing large scale enterprises may be advanced as an appropriate criticism of this article, which imposes serious limitations on the freedom of choice of the boards in co-opting new recruits and may limit the activities of existing directors in the field of company promotion. This is certainly the most objectionable feature of the new draft law; for, apart from the obvious fact that the attention a director is expected to devote to any concern varies with its size, nature and age, the number of cases covered by the law is negligible as may be gathered from the following table compiled from the Directory of Directors for the year 1941. It will be seen

(2) Bulletin de la Chambre de Commerce d'Alexandrie, March, 1946.

from the above table that, out of a total of over 700 directors, only 21 had more than 10 director-ships. The instances recorded occur with more frequency in the case of companies with a capital of L.E. 100,000 and above. Three out of the twenty-one are directors of the bank Misr, who also sit on the Board of all Misr undertakings, and moral persuasion by the government may be invoked to require these gentlemen to limit the number of companies they manage, although there are certain advantages in having men of high calibre sitting on the boards of associated firms, thereby gaining an insight into the problems of the whole group. A reform of company law which throws more responsibility on the directors would induce them to concentrate on a smaller number of companies while taking a more active part in their management. (1)

No. of Directorships	Frequency	Number of Directorships	Frequency
1	494	13	4
2	114	14	—
3	45	15	2
4	27	16	1
5	16	17	1
6	4	18	—
7	12	19	1
8	7	20	—
9	5	21	1
10	5	22	—
11	3	23	1
12	1	30	1

(1) It is frequently contended that directors' remuneration forms too high a proportion of distributed profits. While this allegation is not true for most companies, it is certainly justified in the case of some of the large and prosperous ones, as may be judged from the following figures (cf table overleaf). This may be remedied if the articles of association set an upper limit to the board's emoluments. The fact that directors' fees are fixed at a certain percentage of profits, after payment of an initial dividend, may give rise to attempts to tamper with the netting of profits, as directors may be inclined to pass a dividend one year in order to secure a share for themselves in the following year.

Name	Year	Profits distributed	Directors' fees
		L.E.	L.E.
Misr Spinning (Kafr El Dawar)	1943	100,000	14,695
Misr Spinning (Mehalla)	1942–43	285,000	24,115
Filature Nationale	1942–43	260,000	20,663
Bank Misr	1943	343,172	24,025
Misr Lines	1941–42	6,750	3,461
Electricity and Ice Company ...	1943	16,780	8,368

Further measures for speeding up the "Egyptianization" of companies are urged by the sponsors of the new bill. It provides that at least one third of directors, half the administrative and technical staffs, (1) receiving at least 50% of the staff bill, and 90% of workers, receiving 90% of the wage bill, must be persons of Egyptian nationality. Now, this type of infringement on their sovereignty has always been vigorously resented by the powerful foreign interests operating in Egypt, and even the mild legal requirements imposed earlier evoked concerted protests from foreign chambers of commerce. (2) The insistence on the use of arabic in correspondence with the departments of state and in accounting raised a similar outcry. The tightening of controls may now discourage foreign capital or cause it to fight shy of the joint stock form. Moreover, some of the reforms are difficult to enforce. Thus, the insistence on a share for Egyptians in all new issues may lead to the use of nominee holdings; and there is nothing to prevent foreigners from buying up, subsequent to allotment, all securities coming on the market.

The proposed measures are the by-product of rising nationalism, and have their counterparts wherever native capitalists clash with foreign ones. (3) The economist cannot condemn them outright but can point out that they are incompatible with the desire to industrialize rapidly and that they may be injurious unless measures are taken to

(1) Although this measure may help relieve unemployment in the learned professions a full solution requires long term vocational planning.

(2) A perusal of the Journal of the British Chamber of Commerce in Egypt, supplies ample evidence of this statement. The recent British Goodwill Trade Mission to Egypt (November-December 1945) has severely criticised the new bill.

(3) Cf. WYNNE, Industry in Latin America, p. 47.

increase local savings and investment to make up for the decrease in capital imports. However, foreign capital in Egypt has hitherto enjoyed privileges and immunities unparalleled anywhere else in the world, and the process of "peaceful change" should be allowed to remedy past grievances. Any recalcitrance on the part of foreign interests to acquiesce in the new "reforms" or to make concessions to the rising tide of national consciousness would produce a wave of Xenophobia detrimental to economic co-operation between Egypt and the outside world.

Reference has already been made to the fact that current company regulations are embodied in a series of ministerial ordinances and in scattered articles in the code de commerce; and the first need is, therefore, for a prompt consolidation. As to substance, the reforms projected in the new bill, simply mark a new stage in the jockeying for power between the agricultural and the industrial groups of capitalists, the sections on foreign investment being included for vote-catching purposes. They side-track the main issues which have, for years, baffled jurists and legislators in Great Britain and the U.S.A., i.e., the abuses arising out of the rapid development of the joint stock form of organization and the opportunities it affords to unscrupulous promoters and directors to prey upon a credulous public.

Recent legislation in the U.S.A. and Great Britain attempts to eradicate the abuses resulting from the co-existence of "ownership without appreciable control and control without appreciable ownership" by curbing the powers and increasing the responsibilities of promoters and directors. It purports to protect existing and prospective investors and provides them with more detailed information about the concerns in which they invest. In the U.S.A. the New Deal legislation was intended to prevent a recrudescence of the scandalous practices perpetrated in the heydays of the "new era", which were unearthed in the course of congressional hearings and in the writings of eminent publicists such as Ripley, Brandeis, Berle and Means. The measures taken, [1] i.e., the Securities Act of 1933 as amended by the Securities Exchange Act of 1934 and the Public Utility Holding Companies Act of 1934, were actuated by a desire to restore confidence and start the ball of investment rolling.

(1) E. S. Mead and Others, The Business Corporation, p. 268. W. R. Taylor, Financial Policies of Business Enterprise, p. 264.

The first is a belated attempt at ensuring that prospectuses give a true account of the financial situation of the company. It requires sponsors of new issues to file adequate information about, inter alia, the Company's business, its financial record, the object of new issues, the names and addresses of underwriters, principal stockholders, directors and any sellers of property who will be paid out of the proceeds of the new issue, and the extent of the interest of any director, officer or chief stockholder in any property acquired within two years. The fact that the interests of directors and sponsors in the company, their dealings in its securities and the contracts they enter into with it are made known reduces the chance of their profiting by the sale of property at inflated prices, by diverting profits to subsidiary companies or to classes of stocks in which they have a large interest, and by manipulation based on inside information.

Besides prescribing this modicum of publicity the act places upon sponsors responsibility for misrepresentation of fact or failure to disclose material information likely to influence the judgment of prospective investors, and any person sustaining loss as a result of false registration may sue the sponsors for damages. The Securities Exchange Act deals with the misuse of the legal device of proxy and requires the parties soliciting proxies to inform shareholders of the attitude they intend to take with regard to the various matters, actions or discussions which will be placed before the meeting of shareholders. The Securities and Exchange Commission is authorised to protect minority stockholders in regulated companies against "abuse and extortion". (1)

In Great Britain, the Cohen Committee's (2) recommendations for amending the Companies Act of 1929 have been accepted in their entirety and are being translated into legislation. First, they introduce additional safeguards against fraud in the formation and management of companies, by requiring directors, sponsors and bankers to exercise more caution and discrimination than hitherto. Greater responsibility is placed upon directors, and if any director signs a prospectus containing false statements the onus of proof will be on him "to establish that he did not know that the statement was false and that he could not, by taking reasonable precautions, have ascertained its falsity". Persons employed by the company or its directors, or

(1) Mead, op. cit., p. 80.

(2) The Committee on Company Law Amendment, Report June 1945, see also important articles in the Economist, April 11, 1942, July 31, 1943, July 21, 1945.

partners thereof, may not be engaged by the company in the capacity of auditors. The Board of Trade is given wide powers of investigation and prosecution whenever companies are improperly or dishonestly floated or managed.

In the second place, the Committee recommends the fullest practicable disclosure of information to creditors and shareholders, especially in the case of holding and private companies. It urges that accounts be made clearer and more detailed so that owners can exercise their rights more fully and condemns the practice of lumping together heterogenous items. In future, holding companies will be required, as far as possible, to present the results for the group as a whole. On the other hand, directors will be required to disclose contracts with the company in which they have a substantial interest, together with any transactions in its share. Subject to certain exceptions, the granting of loans by a company or its subsidiaries to directors will be rendered illegal. Moreover, director's fees and other emoluments will be disclosed separately in the annual accounts. While not prohibiting the nominee system of registration, the Committee lays down certain safeguards and confers upon the Board of Trade drastic powers of investigation to ascertain in whom control is vested.

Finally, the report recommends that shareholders be given a reasonable opportunity to examine the draft resolutions submitted to them by the Board, that a longer period of notice for annual general meetings be allowed and that facilities be granted to groups of shareholders, who may be dissatisfied with the way the affairs of the company are conducted to canvass other shareholders with a view to concerted action.

It is on such lines that any serious reform of Egyptian Company Law should proceed. The prospectuses are painfully inadequate and reveal very little about the purposes and affairs of the company. There is a galaxy of accounting methods and terminology which confuses the initiated. While some companies, especially regulated monopolies, publish detailed accounts, others do not publish anything and even the Companies Office knows nothing about them apart from their capital. Still others disclose the minimum information lumping together items of heterogeneous nature. (1) Any new legislation

(1) A flagrant case is that of the Société Egyptienne de Ciment Portland Tourah which shows on the assets side of the balance sheet "fixed "Assets L.E. 497,492, "current assets" L.E. 946,622 (1944).

should define the duties and responsibilities of sponsors, directors and auditors in no ambiguous way and provide for an independent audit of the books by qualified accountants. The Companies Office should be granted investigatory powers for use whenever there are grounds for suspecting that there is fraud or gross mismanagement. Furthermore, the increase in the number of holding companies makes it advisable to insist on the publication of consolidated balance-sheets. It is not necessary, however, to formulate legislation ensuring increased participation by shareholders in the control of joint stock companies. Most companies are small and their securities are not quoted on the Exchanges. The composition of boards of directors and the frequency with which certain names recur suggest their family nature. In such cases, ownership and control are not divorced, the latter being vested in the owners of capital.

But the position is different in the case of large companies where divorce between ownership and control is all but complete (1), owing to the diffusion of ownership and the apathy of shareholders. Here, control is exercised by a minority of shareholders owning a sizeable proportion of voting shares. The practice, labelled democratic, of favouring small subscribers at the time of allotment and the exclusion of large subscribers by setting a maximum, (2) together with the mobilization of proxies, facilitate minority control. Any attempt by a capitalist to gain control and dislodge the existing management can be defeated by reducing the number of votes exercisable by any single shareholder as the holding increases beyond say 100 shares. (3)

Where there is no powerful minority intent on intervention, directors are left in sole control of undertakings commanding large resources. The powers conferred upon them are very extensive, and in the annual meetings of shareholders, they are left to exercise the votes of absentee owners. However, on various occasions shareholders have challenged the management before the Courts and there were sporadic attempts to form defence committees of security holders. Thus, a group of disgruntled shareholders in the Misr Group took exception to the practice

(1) *See* BERLE & MEANS, The Public Corporation and Private Property.

(2) In the recent case of Al Chams S.A.E., the maximum was set at L.E. 1,000.

(3) In Egypt, there are no shares carrying excessive voting rights and some companies even maintain equality of voting power between ordinary and preference shares. In a large number of industrial companies, voting power decreases as the holding increases. A fairly prevalent arrangement gives 1 vote per 5 shares up to a hundred, then 1 vote for every additional twenty, or forty, up to a 1,000, then 1 vote per 100 shares beyond.

of co-opting directors whenever a vacancy occurred, and to other alleged breaches of the spirit of the memorandum of association. Then formed an association for mutual defence and launched a campaign against the management. Their efforts were of no avail, but their prestige was enhanced after the debacle of the Bank in 1940. Owing to apathy, diffusion and the high cost of litigation, defensive action on the part of shareholders is doomed to frustration.

In the special circumstances of Egypt, great care must be exercised in framing legislation placing extra liabilities on directors and sponsors, lest they be deterred from shouldering the risks inherent in company promotion. Even in the U.S.A. where the capital market is well developed, the heavy liabilities imposed on sponsors and directors has increased the uncertainty associated with capital issues and may have retarded the course of recovery after the Great Slump. (1) The enhanced risks of capital issue have led to an increase in private placing and sale to institutional investors and may cause a revival in bank advances to business.

(1) J. M. CLARK, Social Control of Business, p. 447.

CHAPTER III

The Banking System and the Finance of Industry

(1) The Banking System of Egypt.

Before embarking on an exhaustive study of the role played by the banks in financing Egyptian industry and trade, it is necessary to give a brief account of the banking "system" of Egypt, putting into relief its salient features and stressing the main differences between it and the banking systems of the economically more advanced countries of Western Europe and the New World.

The large financial institutions operating in Egypt can be classified into two main groups viz:

(1) Land or Mortgage Banks: These establishments devote themselves exclusively to granting long and medium term advances, secured by first or second mortgage, on land and buildings. They cater solely for the wealthy minority of landowners as may be inferred from the fact that the average size of loans granted by the two leading mortgage banks, the Crédit Foncier Egyptien and the Land Bank of Egypt for 1940 was L.E. 3,280 and L.E. 1,528 respectively. The mortgage banks refrain from dealing with small landowners, owing to the operation of the notorious Five Feddan (1) Law, which forbids the foreclosure of the property of a debtor owning five feddans or less, and the cost and irksomeness of dealing with a large number of clients whose scrupulousness in meeting their obligations punctually is not exemplary.

The majority of mortgage banks were established in the latter half of the nineteenth century and the first decade of the twentieth, an era characterized by large scale import of capital from Europe, culminating in the crisis and financial panic of 1907, which were caused, mainly, by excessive speculation in land on borrowed funds. They command immense capital resources and their indebtedness, in the form of debentures of various denominations and maturities, runs into millions of pounds. Table I gives some details about the financial strength of the leading mortgage institutions. Compared with those of commercial banks, the figures demonstrate the overwhelming preponderance of mortgage banking and reflect the paramount importance of agriculture in the economic life of Egypt.

(1) 1 feddan = 1.038 acres.

TABLE I.—FIGURES RELATING TO MORTGAGE BANKS OPERATING PRINCIPALLY IN EGYPT.

Year	Capital	Reserves	Debentures outstanding
	L.E.	L.E.	L.E.
1941	4,369,225	7,281,897	11,218,368

In addition to the foreign establishments, there is a state mortgage bank, the Crédit Hypothécaire Agricole d'Egypte, with a capital of L.E. 1,500,000, which lends mainly to the small holders, who have hitherto been denied facilities for raising long term loans. Established during the Great Depression to take over arrears of debts from the mortgage banks and to stop the wave of foreclosure which followed the catastrophic fall in cotton prices, the bank was until 1941 administered by the Crédit Agricole Egyptien, but has since existed as a separate entity. It enjoys a large measure of Government support and its debenture issue, amounting to L.E. 2½ million in 1941, is guaranteed as to principal and interest, besides being exempt from all taxation present and future.

In order to provide adequate credit facilities for financing the movement of crops, the Crédit Agricole Egyptien was incorporated in 1931, with a capital of L.E. 1 million. It lends to millions of small farmers and landowners (2) either directly or through the instrumentality of co-operative societies and has thus filled a serious gap in the financial mechanism of the country. Besides rendering miscellaneous services to its clients, the bank grants three kinds of advances:

(a) short term loans, i.e. for periods not exceeding 14 months, to help defray the cost of harvesting. It also lends on the security of crops deposited in its warehouses.

(b) medium term loans, i.e., ranging from one to ten years, to finance the purchase of agricultural implements, or to enable the borrower to undertake schemes of land improvement and drainage.

(2) It is noteworthy that the Crédit Agricole is exempt from the operation of the Five Feddan Law.

(c) long term loans, repayable within 20 years, for the purpose of land reclamation and development.

Half the bank's initial capital was subscribed by the government while the remainder was taken up by the National Bank of Egypt, the Crédit Foncier, the Bank Misr and the smaller credit institutions. (1) By associating themselves with the government, the bankers were assured of a share in the profits accruing from the finance of agriculture. State financial assistance to the new institution has been forthcoming on a hitherto unprecedented scale. The Ministry of Finance is authorised to draw on the Reserve Fund for the purpose of providing the bank with working capital up to a maximum of L.E. 6 million at a low rate of interest and moreover, the Government guarantees an annual dividend of 5% on share capital. The bank has obtained substantial loans from the Exchequer, the amount outstanding on December 31, 1939 being approximately L.E. 4,072,000; while on the same date the bank's advances of all kinds were in the neighbourhood of L.E. 4,200,000.

(2) Deposit Banks: The second main group comprises a number of banking houses of various sizes. While some are registered in Egypt, others are branches of foreign banks, and, as such publish separate accounts showing the results of their operations in Egypt. Most of the banks falling under the first category were founded by foreign capitalists or by local residents of foreign extraction. The National Bank of Egypt is the most conspicuous example. "The initial capital of £ 500,000 was subscribed half by Sir Ernest Cassel and the remainder by two local residents." (2) Other examples are the Banca Commerciale Italiana per L'Egitto, the entire share capital of which is held by the Banca Commerciale Italiana of Milan, the Banco Italo-Egiziano which is a subsidiary of the Banco di Roma, and the Banque Belge et Internationale en Egypte which is affiliated to the Société Générale de Belgique. Nearly all the important nations of the world are represented in the leading financial centres of Cairo and Alexandria. The only all Egyptian bank is the Bank Misr which was established in the era of intense nationalism following the 1919 revolution which was characterized in the economic field by a legitimate

(1) The scheme of capitalization adopted in the case of the Crédit Agricole may serve as a model for the proposed industrial bank.

(2) Bahaat M. A., The Monetary System of Egypt, p. 110.

desire on the part of Egyptian nationals to play a more active part in the spheres of finance and industry. The bank has always enjoyed a large measure of popular support, a fact which was not altogether without its dangers. (1)

The following table gives, in summary form, statistical data relating to the five big Egyptian banks. It is deficient in so far as it does not include figures relating to certain important foreign banks which do not publish separate accounts for their Egyptian branches. It also suffers from the grave weakness that the various captions may mean different things to different banks. Nevertheless, it enables us to outline some of the main characteristics of the banking "system" of Egypt, characteristics which are common to all economically undeveloped countries. (2)

In the first place, the banking habit is very little developed. In other words, the ratio of notes in circulation to total money, i.e. notes and bank deposits, is much higher in Egypt than in a country with advanced monetary institutions such as Great Britain. In 1937, this ratio was approximately 35% in the former but only 10% in the latter. Furthermore, the Egyptian public has only recently been introduced to paper-money, for although the National Bank started issuing notes shortly after its foundation in the closing years of the 19th century, the volume of notes in circulation remained comparatively small, increasing from 125,000 L.E. in 1900 to 2,700,000 L.E. in 1913. The pound note did not become legal tender until the outbreak of the first World War. Prior to 1898, a galaxy of foreign coins circulated in the country and the movement of the cotton crop was financed by a seasonal influx of gold from the money markets of Europe, and especially from London.

(1) The following figures indicate the rapid growth of the bank's operations :—

	1920	1937
	L.E.	L.E.
Capital	175,108	1,000,000
Reserves	3,629	936,187
Advances	85,680	11,272,015
Deposits	203,960	15,678,522
Cotton handled	Bales 1,684	Bales 109,442

(2) R. S. Sayers, Modern Banking, p. 283 et seq.

TABLE II.—ANALYSIS OF BANK BALANCE SHEETS 1938

L.E. (,000 omitted)

Name	Capital paid-up	Reserves	Deposits	Cash	Bills	Securities	Advances	Remarks
National Bank of Egypt ...	2,925	2,925	22,041	2,450	1,902	14,479	9,725	
Italo-Egiziano	487	90	1,412	228	—	165	1,525	Bills not shown separately.
Banque Belge	500	33	1,598	451	220	76	1,463	
Banca Commerciale Italiana	500	40	1,967	783	149	5	1,657	
Bank Misr	1,000	765	15,678	1,963	1,106	3,876	10,198	
	5,412	3,853	42,696	5,875	3,377	18,601	24,568	

Source : Published Balance Sheets.

In the second place, the banks operating in Egypt, with the exception of the Bank Misr, are either branches of foreign establishments or joint stock companies registered locally with foreign capital and under foreign management. (1) Even the National Bank of Egypt had a dual management and the board of directors in Cairo had to refer to the so-called "London Committee" all transactions involving amounts exceeding L.E. 100,000.

The implications of this state of affairs are obvious, and the dangers inherent in its continuance do not need too much stressing. The magnitude of the operations of the banks is determined primarily by the financial and economic conditions obtaining in the country or countries where they derive the bulk of their funds. Consequently, it is impossible to insulate the internal market from the incidence of booms and depressions originating abroad, and every banking crisis in Europe produces serious repercussions in Egypt. Thus, during the German banking debacle of 1931, a serious run developed on the Deutsche Orient Bank in Cairo; and in the thirties, French refugee funds (not money) were constantly moving in and out of the country owing to the unsettled financial conditions in France and the persistent fears of an impending devaluation. Large foreign funds were repatriated in 1937 following the repeal of the capitulations and the apprehensions felt by many foreign capitalists lest the newly won fiscal freedom might be exploited to impose confiscatory taxation.

Nor is this all; local banks are seriously affected by developments in the sphere of international politics. For instance, on the outbreak of the first World War, a financial panic, with the ensuing scramble for liquidity, developed as a result of the action of certain banks, which, in their anxiety to repatriate their funds, pressed for the repayment of outstanding advances at a short notice. The Abyssinian "incident" of 1935, caused a serious run on Italian banks in Egypt, (2) and after the crisis had passed, some of them did not re-open their branches. The international tension in the fateful summer of 1939 led to an exodus of Italian funds from Egypt and during the second World War, Italian

(1) The following statement by the President of the Alexandria British Chamber of Commerce illustrates the importance of foreign investments in Egypt. "The market value on December 31, 1929 of public loans, stocks and shares quoted on this stock Exchange totalled nearly L.E. 200,000,000 and it is no exaggeration to say that 90 per cent of the amount is held by foreigners in and out of Egypt. The Economist, January 23, 1937, p. 174.

(2) The Economist, January 4, 1936, p. 15.

and German banks were put under the management of a "Custodian General" in compliance with the system of sequestration on enemy alien property proclaimed after the severance of diplomatic relations with the Axis powers. Finally, after the collapse of France, French banks were administered by the London branches of the parent concerns.

In the third place, the money market lacks the service of a central bank despite the fact that the National Bank of Egypt has some of the attributes and possesses some of the powers usually associated with a central bank. Thus, it has very close connections with the Government and the 1898 Charter confers upon it the exclusive right of note issue. It is responsible for managing the currency system and for maintaining the value of the Egyptian pound, which is linked to sterling by a rather dubious arrangement initiated in 1916, and under the terms of which the note cover consists almost exclusively of British treasury bills and war bonds. Moreover, the National Bank of Egypt acts as banker to the Government, and the management of the public Debt has devolved on it since the abolition of the "Caisse de la Dette", one of the last vestiges of Egypt's financial bondage. It undertakes open market operations on a modest scale and has come, of late, to act as Bankers' bank.(*)

Nevertheless, the powers of the National Bank of Egypt to act as a true Central Bank are circumscribed in many ways. It carries on an extensive deposit banking business with scores of branches. The bank does not fulfil the function of lender of last resort, because local banks do their rediscounting abroad and rely on the parent institutions for temporary accomodation. The fact that the bank is under an obligation to convert sterling balances into Egyptian currency and vice versa, at a fixed rate, virtually deprives it of that control over cash balances which is the cardinal perogative of a true Central Bank. On the other hand, no concerted policy by local banks is feasible as long as all major decisions are taken by the main offices abroad and so long as they see in the National Bank a close and powerful competitor. Hitherto, banks could not be coerced to follow the lead of the National Bank of Egypt owing to the insuperable obstacles which the regime of capitulations placed in the way of any legislation affecting foreign interests. Finally, in the present state of the money and capital markets, the undertaking of extensive open market operations would

(*) This is evidenced by the rise in "Bankers' deposits" since the bank was entrusted with the administration of the "Clearing System".

cause severe losses to the Central Bank owing to the smallness of the security exchanges, while the low denominations of available commercial paper, and the absence of a well developed bill market, preclude the possibility of granting extensive rediscounting facilities.

Fearing that the role of the bank as custodian of currency and credit might not co-incide with its interests as a commercial bank actuated by considerations of profit, the Government has, on various occasions entered into negotiations with the National Bank of Egypt with a view to its eventual conversion into a Central Bank. In 1940, when the Charter came up for renewal, the Government pressed for the adoption of certain measures of reform and Egyptianization. Thus, the terms relating to the apportionment of profits accruing to the issue department, were revised in favour of the treasury. Moreover, the bank has agreed to convert its shares gradually into cumulative shares, and to increase the number of Egyptians on its Board of Directors until an Egyptian majority is attained. Local recruitment of staff will henceforth be fostered and the "London Committee" will be abolished. Finally, the National Bank of Egypt will, in future, refrain from undertaking minor commercial operations in order to concentrate on the higher functions of Central Banking.

But it is submitted that for the bank to succeed in performing these functions, its authority over the money market must be strengthened by giving it certain powers of quantitative and qualitative credit control. There is urgent need for legislation requiring local banks, (i) to keep part of their reserves with the National Bank of Egypt, (ii) to maintain adequate ratios between cash and quick assets on the one hand and deposits on the other, (1) while giving the National Bank of Egypt the right to vary these ratios in the light of changing circumstances, (iii) and to publish full accounts of their operations in Egypt. The need for such legislation is pressing in view of the fact that bank deposits are encroaching on the hitherto undisputed position of banknotes as the main form of money. The future responsibilities of the bank will be onerous as it may have to give effect to the obligations undertaken by Egypt at Bretton Woods. It should foster the banking habit and thereby help mobilize the country's savings for investment in industry. By the use of the techniques perfected in foreign financial centres, it can do much to maintain low interest rates thereby helping industrial investment.

(1) It appears from Table II that commercial banks adhere to a lower reserve ratio than that of British Banks; the ratio of cash to deposits in Egypt is under 8%.

(2) Foreign Banks and the Finance of Industry.

In order to understand the present day functions of the foreign banking institutions operating in Egypt, it is necessary to study their development in its historical perspective, and to discover any factors which might have influenced the scope of their operations. The early "banks" and financial syndicates established in Egypt were mainly concerned with lending to the Khedives (rulers). Some of the loans so contracted were spent on promoting the economic development of the country, while others were of the "deadweight" type squandered in extravagant and sumptuary living. The cessation of government borrowing in the latter part of the 19th century deprived the banks of their principal activity and they turned to financing the rapidly growing international trade of the country.

The role of the banks in financing the movement of cotton starts long before it is harvested. Early in the year, they make short term advances directly to cultivators or to merchant exporters and other middlemen. The latter proceed to lend to their farmer clients, who promise to deliver the crop directly to the merchants. In the fall, when the crop is harvested, the banks finance its movement to Alexandria, the main port of embarkation. The finance of cotton exports is effected by sterling funds borrowed in the London money market and converted into Egyptian pounds at the National Bank of Egypt (*). When the crop reaches Alexandria and is sold to foreign buyers, the banks discount the bills drawn by export houses on merchants and spinners abroad. For the financing of imports recourse is also had to acceptance credits in London. The greater part of bank advances finds its origin in the financing of international trade. For example, in one year, advances against merchandise and stocks and shares amounted to about 85% of the total advances of the National Bank of Egypt.

The banks have, in financing the movement of cotton, a profitable outlet for their funds. Advances against merchandise are self-liquidating and are usually secured by documents of title to the goods concerned, by securities or by the deposit of cotton, covered by an

(*) This causes a seasonal expansion in note issue. As the cotton season recedes the amount of money in circulation declines gradually. "The volume of Bank advances follows the price of cotton and reflects the pace with which the crop moves from the Interior to Alexandria". Governor of the National Bank of Egypt, Annual Speech, March 1928. The Economist, March 17, 1928, p. 598.

appropriate hedge in the Alexandria Futures Market, in the bank's warehouses in up-country districts or in the port of embarkation. The availability of this safe outlet for their funds, the backward state of industry, the scarcity of reliable industrial borrowers and the traditional aloofness of foreign banks from contact with the Egyptian public . . . all these historical factors have contributed towards shaping the attitude of banks to industry.(1) Moreover, it is likely that traditional British banking policy has had some influence on the thinking of local bankers and branch managers. The Governor of the National Bank of Egypt has laid it down that " For the deposit banks to assist in the creation of industries or in the development of existing ones would . . . be the seeds of trouble ".(2)

Nevertheless, some foreign banks are expressly authorised to undertake the issue of corporate stocks and bonds and to participate in financing industrial and commercial enterprises. The magnitude of such participation has been, hitherto, negligible. For instance, in 1939, the balance sheet of the Banque Belge et Internationale contained an item labelled " Participations Financières " amounting to L.E. 8,235. At one time, the Banco di Roma owned a quarter of the shares of a large mining company engaged in the production of phosphates in the vicinity of the Red Sea, and it had a large interest in a transport concern. (3) In 1935 the National Bank of Egypt took up the entire issue of 5 per cent debentures (2nd series), amounting to approximately L.E. 450,000 of the Misr Spinning and Weaving Company. The 1944 report of " Banque Sanres, " a private banking concern, disclosed that the bank had, during the war, participated in three companies : The Nasim Oil Mills, the Zoe Shoe Factory and the Henri Sursand Company.

(1) " It seems clear that their pre-occupation with the finance of international trade and the limited help they gave to industry has limited their usefulness ". This verdict of Messrs. Crompton and Reis (British Industry, p. 162) on British Banks applies with greater vigour to foreign banks in Egypt. We may add that unlike the case in Great Britain and Germany, where the operations of the banks in support of foreign trade are of importance to industry, the finance of international trade in Egypt does not help industry to any appreciable extent.

(2) The Economist, March 30, 1940, p. 535. Mr. S. Somers, a leading industrialist reports the case of an entrepreneur who approached a leading bank, presumably the National Bank of Egypt, with a view to securing a loan to undertake extensions. But despite the fact that the loan required was a small fraction of the firm's capital, the request was rejected on the ground that the Statutes of the Bank prohibited lending to industry. L'Industrie en Egypte (1927), p. 22.

(3) E. Patasian, op. cit. p. . 50.

Furthermore, the banks under review grant short-term credits to industrial concerns against the deposit of suitable collateral, on the tacit assumption that the loans would be renewable at maturity. The need for this type of accommodation varies from firm to firm, being affected by such factors as the rate of progress of work in the factory, the rate of stock turn, the terms of purchase of raw materials and the terms of sale of the final product. The collateral deposited consists mainly of securities owned by the entrepreneur, in the case of family concerns or, in the case of limited liability companies, those representing accumulated reserves. Short term financing, through bank loans, is preferred to the outright realisation of securities with a view to investing the proceeds, especially when the entrepreneur requires temporary accommodation or anticipates a rise in the price of securities, i.e., a fall in the long term rate of interest. Moreover, when the funds needed are not considerable, resort to the capital market may be extremely costly in view of the high cost of issue and its indivisibility.

A study of the published accounts over many years reveals that, while some of the large transport and public utility companies are creditors of the banks, there is a large number of companies with considerable bank overdrafts,[1] and while some concerns are, at times, creditors of and at others debtors to the banks, not a few are persistently indebted. Furthermore, many concerns do not show their bank overdraft as a separate item in the balance sheet, but lump it together with sundry creditors. On the whole, it seems clear that, while the vast majority of small and medium-size firms are without credit facilities, well established industrial companies, especially those which are foreign owned and administered, get adequate credit facilities for financing their day to day operations. This view is corroborated by the findings of the Committee of inquiry appointed in 1917 to study the effects of the war on Egyptian industry and trade. The Committee[2] was of opinion that well managed concerns in industry

(1) The following examples are drawn from the published accounts for the year 1939-40 :—
Société Viticole (L.E. 22,000), Société de Métallurgie (L.E. 10,000), Salonica Cigarette Co. (L.E. 16,000), Tractors and Engineering Co. (L.E. 25,000), Fiat Motor Co. (L.E. 30,000), Egyptian Road Construction (L.E. 8,000), Société Sclalli (L.E. 5,000), Nettoyage et Pressage (L.E. 104,000), Associated Cotton Ginners of Egypt (L.E. 6,000), Société Egyptienne de Tuyaux (L.E. 7,000), Bonnard (L.E. 8,000), Industries Meunières d'Alexandrie (L.E. 15,000), Tissage de Laine (L.E. 28,000).
(2) Report of the Committee on Industry and Trade, p. 18.

had at their disposal credit facilities not inferior to those available to industrialists abroad. However, it stressed the fact that nascent industries were handicapped by the absence of credit institutions to help them tide over the difficult period of initial growth. (1) The Committee expressed the view that the establishment of an industrial bank would go a long way towards the mobilization of indigenous savings and their investment in industrial undertakings. Such a course of action would, it was argued, reduce the absolute dependence of local industry on foreign capital and, thereby, save a substantial part of the interest and dividends accruing each year to capitalists residing abroad."

(3) *Other Agencies of Industrial Finance.*

Before turning our attention to the Bank Misr reference must be made to various agencies which have come of late to play an increasingly important part in the field of industrial finance.

In the first place, some of the smaller industrial units are partly financed by loans and trade credits from larger concerns.(2) They are also heavily indebted to suppliers, as may be gauged from the size of the item "Sundry Creditors" or "Fournisseurs" in their balance sheets. (3) They receive goods and services from wholesalers and manufacturers on credit for longer periods than those they allow to their customers. Facilities are available to small concerns for the purchase of machinery by the instalment system from dealers and importers, who proceed to discount their promissory notes at the banks. (4) In all this, one can detect a system whereby risk is apportioned among numerous intermediaries, with a consequential reduction in its incidence because the large concerns and wholesalers are better suited than the banks to judge the financial requirements and pronounce on the creditworthiness of small undertakings. Thus, "the vast number of credit instruments created by mercantile credit become the feeders for bank

(1) An example of the difficulties encountered by small entrepreneurs is cited in the report of the Department of Overseas Trade, 1927. Furniture manufacturers use unseasoned timber as they cannot afford to carry stocks for any length of time.

(2) For example, the balance sheet of the Misr Concrete Development Co. (Capital L.E. 6,000) for the year 1940, reveals its indebtedness to the two large cement manufacturing companies, Portland Cement Turah (L.E. 16,134) and Portland Cement Helwan (L.E. 1,660).

(3) This is equally true of large companies. Thus, in 1939, the Société Nationale de Papier (Capital L.E. 216,000) showed "sundry creditors" amounting to L.E. 238,615 and the "Usines Réunies d'Egrenage et d'Huilerie" (Capital L.E. 100,000) showed "sundry creditors" amounting to L.E. 196,042.

(4) Continental firms offer extended credits to buyers of machinery in Egypt, in some cases on an exaggerated scale. Department of Overseas Trade, Report 1927, p. 20.

credit. (1) Merchant employers still play an important role in certain village industries. For instance, in the carpet industry of Upper Egypt, each village is served by a merchant who advances money, provides raw materials and buys the finished products which he sends to the urban centres. Moreover, leading department stores and wholesalers finance small scattered weavers, shoe-makers and furniture manufacturers.

Secondly, a good deal of financing is done by holding companies and parent concerns at home and abroad. The holding companies in the cotton, cigarette and chemical industries, with their stronger financial standing and borrowing powers, help finance their subsidiaries; while firms with affiliations abroad are financed, both as to initial and working capital, by the parent concerns.(2) Thus, in its balance sheet for the year 1940, Siemens Orient S.A. owed Siemens Berlin the sum of L.E. 93,063. The Nile Oil Co. (Capital L.E. 20,000) owed L.E. 12,523 to Socony Vacuum. In 1938, The Ford Motor Co. (Egypt) S.A., owed the Ford Co. L.E. 94,152 and in 1939, the California Texas S.A. owed L.E. 175,817 to California Texas U.S.A.

In the third place, some insurance companies, notably Misr Insurance, employ part of the large resources at their command to finance the growing industry and trade of Egypt. The extent of this type of financing has, hitherto, been rather negligible as life insurance offices favour investment in Government securities, shares and debentures of public utility companies, and prior charge securities of the hotel and sugar industries. A broadening of investment policy may, however, be expected in the near future. Increased competition among life offices, the low yield of gilt-edged securities, especially after the recent conversion operation, the vagaries of the foreign exchange market in the inter-war years and the resulting losses on foreign investments, the imposition of exchange control abroad, and the provisions of the new insurance law of 1940 (3) which requires companies operating in

(1) The excessive reliance on trade credit and its possible adverse repercussions on borrowers was deplored by the Committee of Trade and Industry (1917) pp. 17-18.

(2) "Direct Investment" has been gaining ground at the expense of other types of foreign investment, especially in new and industrially backward countries; vide "The Problem of International Investment", Royal Institute of International Affairs, p. 40 and D.M. Phelps, "The Migration of Industry to South America", passim.

(3) Article 22, of the 1940 Insurance Law reads as follows:
"Every undertaking transacting insurance business ... must maintain in Egypt assets representing at least 60% of reserves". In Egypt, investment in state loans represents participation in public utility industries, since the state owns and operates the railways, the telephone and telegraph systems.

Egypt to invest part of their accumulated reserves locally . . . all these factors will tend to induce life insurance offices to seek a partial employment for their steadily increasing funds in industrial paper or in the mortgage of industrial property. This practice has been gaining ground in England and the U.S.A., where insurance companies, investment trusts and other institutional investors take up large blocks of security issues. In 1920, investments in the form of debentures, preference and ordinary shares formed approximately 12·1% of the total assets of British insurance companies. (1) In 1951, the distribution of assets of "Assurance Companies" established within Great Britain showed *stocks and shares* (preference, guaranteed and ordinary) to be 13.8% of the total assets amounting to £. 1,218 million. (2) They are known to be interested in chain stores, the film and motor industries. An analysis of the security holdings of joint stock companies in Egypt shows an overwhelming preponderance of the fixed interest prior charge type of securities, Egyptian and Foreign. A notable exception is the Misr group where old established companies employ part of their reserves in acquiring shares in newly established "Misr" companies.

Finally, mention must be made of a new development in the field of industrial finance, namely the recent establishment of a number of finance companies for industry and trade. The following table gives some details, gleaned from their published accounts and reports. The activities of these firms have been more conspicuous in the textile industry and in film production, and their founders are to be found on the board of companies formed under their aegis, but they are not entirely devoted to the finance of industry. Besides dealing in stocks and shares, the undertaking of services ancillary to capital issues and the granting of loans to affiliated concerns, they engage in commerce on their own account and some of them combine with the business of financing that of builders, contractors and estate agents. Their published accounts do not always show the results of their industrial activities separately, but it may be stated that the rapid turnover of their advances and participation may compensate for the smallness of their capital. (3)

(1) A. T. GRANT, A Study of the Capital Market in Post-War Britain, p. 180.
(2) SCHWARTZ and PATEL, Insurance Funds and Their Investment, p. 61. In 1943 stocks and shares held by life insurance offices reached £ 158 million or 14·3% of total assets. 55% of the item "Stocks and Shares" was in the form of ordinary shares. The Economist, February 10, 1945, p. 180.
(3) Another former company, the Société Générale de Placement Financier (Capital L.E. 100,000) was established in 1946.

TABLE III.—EGYPTIAN FINANCE COMPANIES 1943

Name	Date of Inception	Capital	Remarks
		L.E.	
(1) Société Egyptienne de Placements et de Crédit	1938	25,000	
(2) The Near East Finance Company ...	1937	50,000	Loans and investments L.E. 24,000.
(3) Egyption Finance Company	1933	50,000	1938 : Advances to Société Egyptienne de tissage et Tricotage amounted to L.E. 26,670.
(4) Société Egyptienne Financière pour le Commerce et l'Industrie	1938	50,000	Holds the entire share capital of La Cotonnière S.A. and United Textiles S.A.E.
(5) The United Trading & Financial Co. ...	1934	100,000	*1935 Balance Sheet* : Investments L.E. 24,634 Debtors L.E. 194,540.
(6) Société de Crédit, Alexandria	1931	200,000	Participation in commercial ventures L.E. 370,128 in 1943, L.E. 24,997 investments, 1939 : loans to enterprises L.E. 27,057.
(7) Société Franco-Egyptienne de Crédit ...	1934	21,000	Loans and investments L.E. 34,000
and			
(8) Commercial Agency Co. of Egypt ...	1908	22,800	Has a majority interest in three companies — Société Egyptienne de Conserves Alimentaires, Egyptian Chemical and Drug and Alexandria Manufacturing Company.

CHAPTER IV

The Banking System and the Finance of Industry (*contd.*)

(1) *The Bank Misr and the Finance of Industry.*

In contrast to the policy of the foreign banks operating in Egypt, the Bank Misr has persistently pursued a policy of active participation in industry and trade. The purchase and sale of securities and the participation in industrial issues figure among the purposes enumerated in its statutes. The bank has developed on lines lying midway between pure deposit banking, of which British banks are supposed to be the paragons, and pure long-term financing, the kind of business once associated with the continental banques d'affaires. In other words, it combined with deposit banking and the finance of a substantial part of the cotton crop, other functions such as the formation of industrial and commercial companies and their equipment with permanent capital.

The participation of the bank has taken many and varied forms. In the first place, it embarked on an ambitious programme of company floatation in the fields of industry, transport and commerce. Table I shows the extremely heterogeneous nature of these undertakings and the extent and ramifications of the bank's participation. The new companies did not represent entirely new investment, as many existing concerns were converted under the bank's auspices. While spreading its risks as widely as possible in order to avoid locking up large funds in a few concerns or a few industries, the bank had a particularly strong foothold in the textile industry. (See Table I overleaf).

The extent of the bank's participation in the group appears in the annual balance sheets. In 1937, the value of shares in subsidiaries held in the portfolio was stated to be L.E. 512,900 and there was a reserve fund of L.E. 275,000 earmarked for initiating and fostering new enterprises. These two figures do not, however, give the whole picture of the bank's commitments in the group, for, as will be seen presently, advances on current account far in excess of the bank's capital and reserves were made to the group in general, and to Misr Spinning and Weaving in particular.

TABLE I.—THE MISR GROUP OF COMPANIES

	Capital L.E.
Textiles	
(1) Misr Spinning and Weaving	1,000,000
(2) Misr Spinning (Fine Cotton)	500,000
(3) Misr Silk	75,000
(4) Misr Flax	45,000
Transport	
(1) Misr Lines	200,000
(2) Misr Transport and Navigation	150,000
(3) Misr Air Works	80,000
(4) Misr Shipping	7,000
Trade and Insurance	
(1) Misr Insurance	50,000
(2) Misr Cotton Export	100,000
(3) Misr Sale of Egyptian Products	30,000
Miscellaneous	
(1) Misr Oil	30,000
(2) Misr Mines and Quarries	10,000
(3) Misr Ginning	250,000
(4) Misr Printing	50,000
(5) Misr Fisheries	75,000
(6) Misr Cinema	75,000
(7) Misr Tobacco	40,000
(8) Tanning and Leather	50,000
9) Misr Pharmaceutical	10,000
TOTAL	2,946,000

Unfortunately, the management of the bank, in the formative stages, was characterized by a certain degree of recklessness, which was lost sight of in the wave of popular enthusiasm that greeted the establishment of every new company. Not enough time and care were devoted by the technical advisory department to studying the

potentialities of the new undertaking before launching them. The lack of careful planning and investigation is exemplified by the case of the "Société Misr pour l'Industrie de Papier" which was founded in 1924 with a capital of L.E. 30,000. It was then found that economical operation necessitated a capital of at least L.E. 250,000, whereupon it was decided to postpone the project indefinitely. Moreover, a very large measure of centralization and vertical integration was adopted and extensions were undertaken at breath-taking speeds. The results were, at times, disastrous. Some Misr companies never declared a dividend despite protection and government assistance, and in some instances, as it transpired later, dividends were paid out of capital. Some companies were found to be over-capitalized at the time of the compulsory reorganization ordered by the government as a pre-condition to its intervention to prop up the bank's position. The bank sustained heavy losses in its endeavours to bolster up its offspring. (1) In 1940, it made up the accumulated losses of Misr Fisheries and Misr Cinema amounting to L.E. 14,000 and L.E. 93,000 respectively, and in 1942 it bore the losses of Misr Oil and Misr Tanning amounting to L.E. 61,000 and 42,000 respectively. Moreover, large loans were granted to cotton dealers, whose financial position had deteriorated beyond repair, for the sole purpose of keeping the ginning mills, the river fleet, the insurance and export companies thriving. Considerations of prestige militated against the early liquidation of unprofitable companies.

In recent years, a number of new companies have been launched in partnership with powerful foreign interests. This departure from earlier practice may have been due to the highly technical nature of the operations involved, the imperative need for recruiting a large staff of foreign experts, and the unwillingness of the foreign interests to provide the requisite technical equipment without participating in the proposed companies. In one case, participation was agreed to after the foreign interests had threatened to start new concerns in competition with those developed by the bank. Thus, Misr Insurance was formed with the help of the British firm of Bowring and the Assicurazioni Generale di Trieste, Misr Shipping S.A.E. was founded in partnership with Cox and Kings and the two complementary firms for the spinning and dyeing of fine cotton (Kafr el Dawar

(1) Annual Reports of the Bank.

and Beida) were the result of a working agreement modelled on the German "interessen gemeinschaften" with the all-powerful Bradford Dyers Association. (1)

In the second place, the bank Misr sponsored all issues made by its subsidiary companies. Applications for subscription were received at the offices of the bank all over the country. Owing to the backward state of the capital market and the absence of specialized issue houses, it had to undertake all the operations ancillary to the marketing of their securities. Thus, it had to perform many services which, in Great Britain, would be the sacrosanct preserve of company promoters, issuing houses and underwriters.

The Bank and a restricted group of capitalists had to provide the whole capital in order to ensure the success of the venture, because existing company regulations provide that the capital must be subscribed in its entirety, and at least 25 % paid up on application, before a limited liability company is legally constituted. To the initial capital of Misr Spinning and Weaving, the bank subscribed L.E. 136,300 out of a total of L.E. 300,000. In the case of Misr Silk, Misr Fisheries and Misr Flax it provided 65 %, 44 % and 45 % respectively of initial capital. In 1944, the bank held 30 % of the shares of Misr Printing, Misr Ginning and Misr Navigation and 50 % of the capital of Misr Cotton Export. At the time of re-organization the bank held as much as 75 % of the capital of some of the less well-known companies. When the companies were established, the bank proceeded to unload part of its holdings by issuing a prospectus inviting subscription from its wide clientele. A comparison of the balance sheets for the years 1937 and 1938, for instance, reveals a substantial reduction in the item "participation in industrial and commercial concerns founded by the bank" from L.E. 512,909 to L.E. 178,196, a clear indication of the bank's success in disposing of a substantial part of its security holdings. The securities of the Misr group were almost always nominative and the right to acquire them was, until the recent re-organization, reserved to Egyptian nationals. This restriction must have adversely affected the marketability of the securities of the Misr group. Owing to the limitation of demand, the offer of a large block of securities would, without the bank's intervention, lead to a considerable fall in quotations.

(1) The same tendency is to be found in India; e.g. "Messrs. Tata, Sons & Co. recently concluded an agreement with an American syndicate with a view to getting better financial facilities for all the power companies under their control" P.S. LOKANATHAN, Industrial Organisation in India, p. 127, footnote.

Sometimes, the Misr Companies made direct appeals to the investing public; but it was tacitly assumed that the bank took a large measure of responsibility in respect of the issues, and wherever the public failed to respond readily, the bank had to step in and absorb in its own portfolio the remaining part of the issue pending its gradual unloading. One of the lessons of recent banking history is that such practices are fraught with grave dangers. For, despite the attraction of issuing and underwriting commissions, there always lurks the danger that a few unsuccessful issues might wipe out any past profits, especially if a trade depression intervenes and causes a catastrophic fall in security prices. In order to facilitate the free marketing of securities sponsored by the bank, the Société Co-opérative Commerciale de Crédit, a finance company in which the bank is heavily interested, undertook to lend on the security of shares of the Misr Group (1).

In the third place, the bank has been overgenerous in granting advances to the Misr group both for working capital, i.e. loans of a self-liquidating nature for financing wage payments and the purchase of raw materials, as well as for undertaking extensions, presumably in anticipation of recourse to the capital market. (2) It has done so occasionally with firms outside the Misr group. (3) Moreover, a study of the distribution of loans granted under the "State Financial Aid to Industry" scheme, which was administered by the bank Misr, reveals that the lion's share in the loans went to the Misr group. The following table II shows the magnitude of the bank's advances to its subsidiaries in various years. It will be noted that, in many instances, these advances exceeded the paid-up capital of subsidiaries, and in the notable case of Misr spinning and weaving, the loans granted amounted to nearly three times the paid-up capital of the bank. These loans many of which were for all intents and purposes in the nature of lasting participations, were contracted to finance a huge programme of extensions extending over many years, in the hope that, eventually, they would be "funded" out of the proceeds of new capital issues.

(1) Experience in countries practising mixed banking suggests that whenever a bank undertakes to sponsor security issues, it tends invariably to lend more freely on securities issued under its auspices.

(2) In appraising the activities of the Bank Misr, Dr. RIFAAT concentrated on the fact that "participation" was on a very limited scale (never exceeding 4% of deposits). He completely left out of the picture the large long-term advances made to the Misr group. C.F. RIFAAT, M.A. op. cit., pp. 146-7.

(3) In 1938, advances to the Société Egyptienne de Minoteries et de Silos amounted to L.E. 209,945.

TABLE II.—BANK MISR ADVANCES TO SUBSIDIARIES

Name	Bank Loans	Government-sponsored Loans	Capital of Subsidiaries	Year
	L.E.	L.E.	L.E.	
Misr Linen	272,667	—	200,000	1938
Misr Transport and Navigation	81,984	64,043	150,000	1941
Misr Airworks	86,899	—	80,000	1938
Misr Spinning	2,793,085	128,086	1,000,000	1939
Misr Fine Spinning	150,933	—	500,000	1939
Misr Flax	96,304	72,625	45,000	1939
Misr Fishing	79,775	14,673	75,000	1939
Misr Silk	251,957	21,348	75,000	1939
Misr Printing had a credit account with the Bank.				
Société Co-opérative Commerciale de Crédit	52,536	—	14,532	—
Misr Cinema	182,627	8,361	75,000	1938
Misr Ginning	35,629	135,750	—	1939
Misr Quarries	77,229	—	10,000	1939
Misr, Sale of Egyptian Products	10,563	—	80,000	1940
Tanning and Leather	143,632	—	50,000	1942

Fourthly, the formation of some companies was the result of the insolvency of an important industrial concern with heavy commitments to the bank. In order to avert bankruptcy, it had to intervene and convert the firm into a limited liability company, with the bank holding a controlling interest in exchange for frozen loans previously made to the defaulting debtor.

Two final remarks on the attitude of the bank to the concerns developed under its aegis. The bank had an important say, one is tempted to add the final say, in the management of companies comprising the Misr group. (*) This close association is evidenced by the fact that the managing directors (Administrateurs délégués) of the bank were, in almost all cases, the managing directors of the associated companies. The attitude of the bank towards the formation of monopolistic organizations has been sympathetic throughout, and it has been at the forefront of the agitation for protection. Itself a party to a bankers' gentlemens' agreement for fixing interest rates and bank charges, the bank has encouraged monopolistic action by its subsidiaries.

Some writers have staunchly defended the policy of the bank Misr, pointing out with pride to its undisputed role as the pioneer of large scale enterprise carried out with Egyptian capital and labour. They have sought to compare it with the policy of the German banks, universally considered as the paragon of mixed banking and long-term association between finance and industry. Such a view is palpably erroneous and its adherents are labouring under a serious misapprehension regarding the role of German banks in the finance of industry. The facts of the matter are as follows.

Since the middle of the 19th century the German "Grossbanken" have been instrumental in directing the flow of savings into industrial channels, thereby speeding up the tempo of the industrial revolution. They helped provide finance for railway construction and for the phenomenal development of the steel and ship-building industries. The statutes of some banks empowered them "to bring about or participate in the promotion of new companies, the amalgamation or consolidation of different companies and the transformation of industrial

(*) Compare, however, M. A. RIFAAT "The Directors of the Companies who are also directors of the bank are to act more in their personal capacities than as official representatives of the bank". This argument does not sound at all plausible. op. cit. p. 144.

undertakings into joint stock form"(1). Between 1871 and 1905 the vast majority of companies were formed under bank auspices. (2) Moreover, unlike its British prototype "the average German firm has always depended to a remarkable degree upon obtaining current account advances, and that not merely to provide itself with working funds but also for the purpose of extending its permanent equipment... in anticipation of recourse to the investment market." (3)

However, the German banks never contemplated any *lasting* participation in industrial enterprises. They looked at their industrial investments as a lucrative *temporary* outlet for their surplus funds and profits from investment in securities were never a major item in the banks' profit and loss accounts. It should also be noted that while industrial participation was important to credit banks before the first World War, its relative importance declined with the growth of the internal short-term money market and the enhanced importance of the role they played in financing international trade. By comparison it becomes evident that the Bank Misr has gone much further than German banks in its industrial policy by floating new companies and holding a majority interest therein. Furthermore, the intrusion of German banks in the management of industrial concerns, associated with them, especially in the case of large scale integrated firms, was not considerable, at least as long as they were prosperous. (4) Bank representatives sat on the Aufsichtsrat, a supervisory body whose aim is to protect shareholders against any abuse of power on the part of directors and to examine the balance sheet, and profit and loss accounts, together with the recommendations submitted by the board to the annual meeting of shareholders. (5) This is an entirely different policy from that of active intervention in management pursued by the Bank Misr, in whose hands reside full control of the group.

It would be much more accurate to compare the policy of the bank Misr with that of the Belgian, Austro-Hungarian and Eastern European banks, where the links between credit banks and industry are very

(1) P. B. Whale, Joint Stock Banking in Germany, p. 12 quoted from Rosenick "Die neudeutsche gemischte Bankwirtschaft."

(2) Riesser, Jacob, "Zur Entwicklungsgeschichte der deutschen Grossbanken p. 161.

(3) Whale, op. cit., p. 28.

(4) Whale op. cit., p. 28.

(5) Vide Whale, op. cit., pp. 49—52.

close indeed, and the distribution of bankers' assets discloses a low degree of liquidity. In Belgium, industrial financing was for long the main preoccupation of banks. They "became a recognized source of new capital for the foundation of new enterprises, often taking the initiative in their creation, and for the development of existing undertakings. In return for providing them with capital on long term, the banks obtained varying degrees of control over industrial undertakings, either by holding large blocks of capital or by being represented on the boards of directors. (1) Similarly in Austria, holdings, in the form of shares and long term credit, constituted a large proportion of bank assets. (2) "The Viennese banks are industrial banks par excellence. They control directly or indirectly the great bulk of the industry and their relations with industry are in general closer than in Germany. They are in a real sense the intermediary between saver and industry, for private investment in other than public issues is little practised. (3)

(2) *The Crisis of the Bank Misr.*

The course of events in the second half of 1939, when the bank Misr became involved in a financial crisis of the first order of magnitude, is reminiscent of the difficulties encountered by Central European and American banks after the onset of the Great Depression of the thirties.(4) Following wide-spread rumours about the imminent outbreak of hostilities, depositors rushed in to withdraw their money from the bank Misr and from the Post-Office savings banks which had large deposits with the bank. (5) The bank Misr was severely hit by the run because

(1) A. M. Akzin and Others, Commercial Banking Legislation and Control, p. 81. See also The Economist, Banking Supplement, October 13, 1934, p. 80.

(2) League of Nations, Commercial Banks 1925-1933, p. 44.

(3) *Ibid*, p. 55.

(4) Similar fate befell the banks formed in India during the Swadeshi Nationalist Movement of 1906-1913. "The new joint stock banks undertook various types of business and developed an unmistakable tendency to provide long term finance to industry... They subscribed to the shares and debentures of industrial companies, and freely advanced considerable funds on the security of factories, machinery, plant buildings, and so on..... A large number of other banks failed and there was a severe banking crisis in 1912-1913. No less than 34 % of the total paid-up capital of Indian joint stock banks was lost during 1913-1917." S. K. Basu, Industrial Finance in India, pp. 123-125.

(5) Withdrawals reached 20 % in the case of post-office savings banks and small depositors. Post Office savings deposits were reduced from L.E. 9,573,679 in 1939 to L.E. 7,463,963 in 1941.

its clientele is drawn mainly from the class of small capitalists who are particularly susceptible to rumours. (1) It is alleged that a whispering campaign, coupled with an obstructionist and vindictive policy on the part of the government of the day, precipitated and aggravated the crisis. Anyway, the run persisted for some time despite heroic efforts on the part of the management to stave off disaster. Shortly after the outbreak of hostilities, Talaat Harb Pasha, founder and managing director of the bank, tendered his resignation. (2) On March 28, 1940, Parliament debated, in camera, an act purporting to guarantee the present and future deposits of the bank as a first of a series of measures designed to restore confidence in it.

The crisis demonstrated the perils of too close an association between deposit banks and industry, and of the failure to take adequate safeguards against the locking up of a large proportion of deposits in long term industrial lending. The question of mixed banking will be taken up later. Here it must be emphasized that there were other contributory causes, besides its industrial policy, for the debacle of the Bank Misr. In the first place, large sums had been lent to landowners and cotton merchants on the security of land and urban properties with the result that a considerable proportion of advances was highly not liquid. Inspired by patriotic motives, and emulating the example of the Government in assisting land-owners in distress, the bank had for long, refrained from foreclosing on the property held as security for what were in essence mortgage loans outside the scope of a deposit-bank.

In the second place, cases of palpable mal-administration had been apparent for some time. The accounting and auditing system of the bank and its affiliates left much to be desired. At one time, the auditing of the bank's books was entrusted to two high-ranking civil servants. The situation in the subsidiary companies was even worse. Their accounts were audited by one or other of the departmental heads of

(1) This is significant in view of the defence of the bank's policy advanced by Dr RIVLIN: "Deposits entrusted to the bank are mostly in the nature of savings, and therefore their turnover or velocity may be assumed to be very small." *Op. cit.*, p. 137. Further on he argues: "The strain of liquidity of assets is not so powerful as in the case of having to cater mostly for commercial customers." *Ibid.*, p. 139. The same view is expressed by M.E. JAMES, *l'Egypte Contemporaine*, Vol. XXX. The writer argues that the bank's deposits, being less mobile than those of European banks, it can engage in long term operations with a lesser degree of risk than the French or British banks.

(2) The Economist, May 25, 1940, p. 833.

the main office of the bank. Even with the best intentions in the world, these gentlemen could not be expected to point out to the management any defects, however glaring, or to tender any criticism, however mild lest they incur its displeasure. Consequently, when at the time of re-organization the accounts were scrutinized by professional firms of chartered accountants, a huge deficit was discovered. The assets had been over-valued and no adequate provision was made for bad and doubtful debts.

Finally, the absence of a central bank, in the true sense of the term, was an aggravating factor. Had the National Bank of Egypt relaxed somewhat the shiftability canons of orthodox central banking theory and accepted some of the securities in the portfolios of the bank Misr as collateral for a large loan, the tension would have undoubtedly been eased and the debacle averted pending re-organization. As the run was localized, shiftability to a Central Bank would have appreciably eased the situation ; but in Egypt there is no lender of last resort.

The special law embodying the recommendations of cabinet and Parliament for dealing with the emergency was passed in July 1941. The pattern of re-organization was as follows :—

(1) The Government guaranteed the present and future deposits of the bank.

(2) The capital of the bank remained intact at L.E. 1,000,000. The deficit of L.E.4,191,484, resulting from the revaluation of assets was to be made good partly out of statutory reserves, and partly out of the "profits" for the two financial years 1939 and 1940 of the bank and its successful subsidiaries.(*) The remainder was provided by the Government out of an appropriation, amounting to L.E. 2,407,443, from the State Reserve Fund. It was agreed that in the course of the disposal of its frozen debts, any amounts realized by the bank over and above the value estimated for the purpose of re-organization, would be divided between the Government and the bank in the ratio of 3 to 1.

(*) Provided that, for the purposes of the law relating to Excess Profits Taxe these companies in which the bank owned at least 75 % of the share capital should be considered as integral part of the bank, and any surplus profits, remaining after the payment of statutory dividends, should revert to the bank. Law No. 40, 1941 (Art. 7).

(3) In respect of the Misr Group of companies it was decreed that the successful ones should, within a year of the coming into effect of the law, convert any debit balances owed to the Bank Misr into shares or debentures to be sold to the public, priority being given to shareholders and depositors of the bank. Unsuccessful companies were to go into voluntary liquidation. It was further decreed that the nominative shares in subsidiaries, held in the bank's own portfolio, should be converted into bearer securities and disposed of in the open market.

As a consideration for its intervention, the Government acquired 1,000 founders' shares of no-par value, entitled to a share in profits after a statutory appropriation to the reserve fund, and the payment of a stipulated dividend. Moreover, the act gives the Minister of Finance the right to veto appointments to the board of directors and provides for the appointment of a government commissioner, who has the right to attend boards meetings in an advisory capacity, and to draw the attention of the management to any acts likely to jeopardize the interests of the bank. If his views remain unheeded he may report directly to the Chancellor of the Exchequer.(1)

It will be seen that the principles underlying this re-organization scheme are analogous to those adopted in the U.S.A, where the Reconstruction Finance Corporation and the Federal Deposit Insurance Corporation were formed to salvage the remnants of the American banking system. One of the great services rendered by the R.F.C after the banking crisis was the taking over of the more sound of the frozen assets of the banks, and the help it gave both to open and closed banks. The provisions of the banking acts of 1933 and 1935 relating to deposit insurance (2) were an innovation designed to eliminate the risk of a general run on the banks during financial panics, when mass hysteria is unleashed.

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(1) Most of the Misr companies have done very well during the recent war and have been able to repay the longstanding industrial (Government) loans and to extinguish their indebtedness to the Bank Misr. Following the sale of the S.S. El Nil and the encashment of the insurance on S.S. Zamzam, Misr Linen was able to contribute L.E. 350,000 to the reorganization Fund. The Bank Misr owned 96 % of the share capital of the company.

(2) "What may be termed the most important recent legislation designed to protect both the banks and the public is the Federal Deposit Insurance Corporation provisions of the Banking Acts of 1933 and 1935, whereby the deposits of each depositor in banks insured by the corporation are insured up to $5,000." D.F.C. O'Connor, Banks Under Roosevelt, p. 23.

A final question must be answered. Has deposit insurance come to stay in Egypt? It would be a grave error on the part of the Government to continue such a policy, owing to the absence of a large number of independent risks justifying resort to the principle of consolidation for their elimination or reduction. Moreover, it may be conducive to negligence, laxity and relaxation of the recognized tenets of sound banking.

(3) *The Theory of Mixed Banking.*

In view of the importance of the subject of bankers' advances to industry in the special circumstances of Egypt, it is proposed here to marshall the theoretical evidence for and against industrial banking i.e., the granting of intermediate and long term loans to industry, and to wind up this chapter with a brief account of the recent history of mixed banking.

It is necessary, at the outset, to bear in mind that the line of demarcation between short, intermediate and long term loans is necessarily blurred, and that the difference in the relative liquidity of bankers assets is a difference in degree rather than in kind. The fact is that certain credit banks consistently grant intermediate or long term credits to finance renewals or extensions of plant and machinery, i.e., increasing the capital intensity by the use of more roundabout time-consuming processes. In such cases, it is usually envisaged that the loans would be re-paid out of the proceeds of future capital issues, the bankers' funds being then released for other uses. Conversely other banks refrain from such operations, or indulge in them only to a limited extent, while concentrating on the finance of trade and the provision of short term loans to industry.

Furthermore, whatever, the bankers intentions may be, it is not within their power to influence in any appreciable degree the use to which their loans are put.(*) Bank loans are merged with the entrepreneurs' own resources and the granting of regular short term credit enables him to invest his own capital in fixed assets such as plant and equipment. "Indirectly, the banks might be said to be ultimately supplying long-term capital, since the facilities they offer enable their clients to economize in the amount of long-term capital which they

(*) C.F. Frank Macmillan, The Stock Market Credit and Capital Formation, p. 253.

employ; without adequate banking facilities the volume of long-term capital necessary to finance business would be vastly increased." (1)

The ideal distribution of bankers' assets would be that which strikes a happy balance between considerations of liquidity and profitability, i.e., between the maintenance of an adequate supply of cash and quick assets, i.e., money at call and short notice, and first class commercial bills, on the one hand, and the granting of commercial and industrial loans at remunerative rates of interest on the other. Inter-regional or inter-national differences in the composition of bankers' assets have their origin in differences in economic development. Inter-temporal differences in the asset structure of banks, within a particular country, may be due to structural economic changes, as when, in the inter-war period, British banks were forced to accept shares and debentures in industrial concerns in exchange for their frozen loans to the basic industries. Close relationship between banks and industry is encountered wherever industrialization was late or slow in pace, where savings were inadequate and did not find their way easily into industrial investment and where there was a paucity of outlets for short-term investment by the banks. The structure of the capital market, the availability or otherwise of investment intermediaries and an enterprising investing class are also decisive factors.

Some arguments against mixed banking are based on misconception. For instance, the contention that the maintenance of a high degree of liquidity enables a bank to go through depressions and panics unscathed is fallacious. Periods of acute financial crises may destroy the liquidity of allegedly highly liquid assets. During a stock-market panic superimposed upon a trade depression, wide-spread bankruptcies occur, and a large part of trade-bills, the self-liquidating assets par excellence, remains unpaid; short-term loans become frozen, and concerted action by the banks to demand repayment only serves to precipitate further disasters. Moreover, such periods are characterized by a heavy fall in security prices, not excluding debentures and government loans.(2) The closing-down of exchanges may preclude

(1) A. T. K. Grant, A Study of the Capital Market in Post-War Britain, p. 185.

(2) "It is not the wild gyrations of the common stock averages but the precipitate decline in the bond averages which constitutes the really novel and arresting feature of recent financial history... The heavy losses taken by conservative investors since 1928 warrant the serious question, is there such a thing as sound and satisfactory investment?" Graham and Dodd, Security Analysis, p. 3.

the possibility of converting securities into cash. A run on the banks at such times endangers their position however well-managed they may be.(1)

Yet the array of arguments against excessive mixed banking is impressive. In the first place, too close an association with industrial concerns renders the bank hypersensitive to stock market oscillations. The value of its assets becomes dangerously dependent on the somewhat fickle and irrational judgement of operators on the stock markets.(2) The failure of a concern in which the bank is known, or thought to be heavily interested, may undermine public confidence in it and if a run develops it may affect other banks as well. Such crises, with their attendant psychological shocks, have pernicious effects on the state of confidence. They usually usher in periods of stagnation, deflationary spirals and hoarding.

Secondly, the risks inherent in industrial participation are too great to be safely combined with deposit banking. As Yeidels pointed out, in a memorandum submitted to the "Indian Central Banking Committee" industrial financing requires much experience and an established policy of sound banking. It also demands considerable capital and a firm resistence to speculation temptations.(3) Industrial investment may turn out to be unprofitable or redundant. In a dynamic world, conditions of demand may worsen, causing chronic slump in certain industries, where factors of production are highly specific. During booms, banks may move with the tide and share the prevailing optimism regarding the prospects of capital investment. Thus over-investment fed by liberal credit from the banks, might occur especially in industrial producing goods of higher order, in accordance with the principle of acceleration and magnification of derived demand. With the advent of depression, banks may suffer large losses. The risks are more pronounced when banks proceed to start industries in economically backward areas, lacking a body of enterprising capitalists. Large scale assistance by credit banks in such circumstances may be dangerous owing to the risks attending the floatation of new enterprises.

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(1) Cf. The Economist, Banking Supplement, May 16, 1936 p. 10.

(2) In the U.S.A. "Stock prices declined 89 % from September 1929 to July 1933 and the volume of trading on the New York Exchange fell about 90 %." A. BAKER, The Twilight of American Capitalism, p. 3. "The index of industrial shares fell from an average of 328 during July, August, September 1929 (1923-1925, 100) to 48, 43, 42 in May, June and July 1932 respectively." Schwartz and Parsh, op. cit, p. 98.

(3) Quoted in N. Das, Industrial Enterprise in India, p. 43.

In the third place, a bank may suffer heavy losses if the public fails to subscribe to the issues it sponsors. It may be tempted, or indeed forced, by considerations of prestige to undertake open market operations to maintain the marketability of the securities of companies associated with it during periods of catastrophic falls in stock-market quotations. Such policy may be fraught with grave consequences for the financial position of the bank, particularly if it has to contend with persistent bear raids on the part of powerful speculators.

Fourthly, under a regime of mixed banking, the financial grip that banks wield over industrial undertakings enables them to interfere unduly in their management.(5) The bargaining power of a firm vis-à-vis its bankers, may be weakened by the presence of a member of the bank's directorate on its board. Banks can acquire great influence by threatening to call or discontinue their advances, or through the acquisition of strategic shares having inordinate voting rights. They can dictate or foster the formation of uneconomic mergers or other associations in restraint of trade for the sake of profits from capital floatation or if such action would improve the earning power of concerns controlled by them, regardless of the economic waste occasioned by such mergers, particularly if they become too unwieldly for efficient management. Control over a group of undertakings in the same industry enables the banks to influence the distribution of orders or the "routing" of profits. Each concern may be forced to deal exclusively with the others regardless of whether or not the prices charged are commensurate with the ruling market prices.

Fifthly, where banks control industry, their command of the investment machinery may unduly influence the distribution of the nation's resources. They may direct a larger proportion of the community's new savings into particular fields regardless of the productivity of capital there, and its relation to the market rate of interest. To maintain the value of existing investment, this process may continue, whereas a disinterested study might show no prospects for the industries in which the investment takes place. There also lurks the danger that, when a group of bankers becomes heavily interested in an industry,

(5) *Cf.* WHALE, *op.cit.*, p. 54: "The great dependence of German industrial undertakings upon bank credit gave the banks exceptional powers, which they did not use exclusively for the purpose of protecting themselves from losses."

it might view with disfavour the rise of new firms, lest their competition may have adverse effects on the value of old investments. The position here is analytically similar to that encountered in the theory of monopoly, namely the action of a monopolist in putting inventions and patents "to sleep", lest he might be forced to scrap old plant and machinery. Finally, whenever a bank maintains intimate connections with a group of concerns, their managers feel assured, rightly or wrongly, of getting credit as and when they want it, and this may be conducive to a certain degree of laxity and a wasteful distribution of resources. The bank may also be tempted to help an insolvent affiliate with heavily under-collateralled loans in the hope of tiding it over a period of adversity, while, as a matter of fact, the firm is irretrievably lost.

Some arguments for industrial banking are found, on examination, to be unsound. For instance, it is sometimes alleged that the assumption by a bank of responsibility for the initial financing of industrial enterprises, and the subsequent issue of shares under its aegis, afford some protection to the investing public against fraudulent misrepresentation or suppression of fact. However, recent financial history in Germany and the U.S.A. goes to show that banks have not been above suspicion in this respect. In the twenties, German banks were honeycombed with the jobbery and graft characteristic of the Kreuger period.(1) Their large dividends were for the most part due "to the exploitation of the carelessness, inexperience and lust for gain of those taking part in bourse speculation".(2)

During congressional hearings on the sale of foreign bonds and on stock market malpractices, American banks were accused of "rigging the market and exploiting the public through their investment affiliates".(3)

It is also urged that participation by the banks in industrial issues ensures that the nation's resources are not wasted in reckless ventures. This would be undoubtedly the case if they had a large staff of experts with a thorough knowledge of industry devoting their time to the study of each proposed venture from the technical, marketing and financial standpoints, thereby reducing or eliminating risks through research. While this may be true of some banks in Germany, it certainly was not the case in Eastern Europe, India or Egypt. The maintenance of such a permanent staff of experts represents a con-

(1) L. Hannan, The Great Depression, p. 92.
(2) Savetsis quoted by Wagemann, op. cit., p. 225.
(3) A. Barger, op. cit., p. 9.

siderable charge on the bank's resources, and its industrial loan operations would have to be very large indeed in order to warrant the costs involved.

Similarly, it is sometimes contended that, where the relationship between finance and industry is very close, it is possible to effect an exchange of directors between banks and industry. Such interlocking of directorates, it is maintained, is beneficial to all concerned, as it affords bank directors a clear insight into the problems of industry, while the presence of industrial magnates on the banks' boards enables them to put the views and air the grievances of the business world. Yet the alleged merits of such arrangements are grossly exaggerated, in view of the fact that the services of able directors are widely sought after and the time and attention they can bring to the study of the problems of any particular concern are necessarily negligible. Moreover, such an inter-change of directors is achieved in countries, such as England, where mixed banking is very little practised.

Nevertheless, the preceding arguments are not a plea for complete banking "isolationism." There is nothing inherently unsound in a policy whereby deposit banks undertake a *moderate* amount of mixed banking, (1) especially in view of the long period trend, discernible in many countries, for bank advances to decline relatively to other assets, and the consequential need for profitable outlets of investment. Such policy would be advantageous provided,

(*a*) the banks exercise great care and foresight in selecting borrowers with sound financial prospects; the financial standing of prospective borrowers, and not the duration of the loan, should be the determining factor. Investment in entirely new ventures and in risky enterprises should be restricted;

(*b*) that they aim at a wide diversification of risks to avoid being overwhelmed by a single failure;

(*c*) that they command large capital resources and maintain secret and disclosed reserves to meet unforeseen contingencies. The dangers of mixed banking are minimized if it is mostly the bank's capital and reserves and not current deposits which are locked up in long-term loans. In other words, less risks would attach

(1) "The advantage to the bank in conducting an investment business lies in the fact that securities may be obtained from as well as sold to the bank's clientele at but moderate additional expense." W.H. STEINER, The Annals of the American Academy of Political and Social Science for 1934. "The Functions of the Investment Banker"

to mixed banking when the proportion of deposits, especially demand or sight deposits to total liabilities is not considerable. For this reason, private banking houses, finance companies and industrial banks with a large proportion of capital to total liabilities, are better adapted, than deposit banks to undertake the task of industrial financing. (1)

(i) *The Fate of Mixed Banking*

The history of mixed banking in recent years is more telling than the theoretical considerations enunciated above. In what follows, it is proposed to give a brief account of the course of events in certain countries of Europe and America.

The experience of German banks in the fifties, seventies and eighties of the last century, in the crisis of 1901 and again in the Great Depression, has not been altogether happy. They did not always confine themselves to the role of investment intermediaries, and their resources were frequently immobilized as a result of sponsoring unsuccessful issues. Their industrial participations were often the source of heavy losses and they have been accused of "fanning the fires of speculative booms." In 1931, the collapse of the Nordwolle Combine, a wool combing company, and other large industrial concerns, directed public suspicion to the big banks which were known to be large creditors and shareholders of the defaulting firms. (2) Certain banks had raised large short term credits in the money markets of the world to finance "rationalization" schemes in industry and were embarrassed when large scale withdrawals brought matters to a head. The "Darat" and other big banks were faced with a serious run, and a bank holiday was declared to avert complete disaster.

Although there were other causes for the banking debacle, i.e., the troubled political and financial conditions, the destruction of capital during the inflation period, unsound monetary policies and excessive foreign borrowing, there is not a shadow of doubt that the close relationship between banks and industry was an aggravating factor. (3)

(1) The French Banques d'Affaires, which had large industrial and commercial participations, made use of their own resources, and their deposits were of secondary importance. *Cf.* Willis and Beckhart, Foreign Banking Systems, pp. 601-5. In Japan the private Banking Houses of Mitsubishi, Meisui, Sumitomo and Yasuda were the initiators and main financiers of many of Japan's industries.

(2) The losses of the Darat Bank in the Nordwolle failure alone amounted to R.M. 25 millions. League of Nations, op. cit., p. 116.

(3) "The German banks, weakened by practices which for years had been the admiration of foreign financial experts—active participation in industrial financing—were in no position to stand a run". L. Rosenstein, op. cit., p. 92.

The magnitude of the crisis was such that the Government had to come to the rescue of the banking system. "With the aid of the Reichsbank and the Government, which together contributed approximately 2 milliard R.M., the banking system was reorganized so as to safeguard depositors and enable at least a minimum of banking activity to be maintained." (1) As a result of the re-organization schemes, the Government became the largest single shareholder in the credit banks.

The experience of American banks has been equally disastrous. During the "New Era", they were attracted by the "lure of profits to be made from the organization and distribution of security issues". They "were interested not so much in industry itself as in issuing shares and carrying them until a favourable opportunity occurred of placing them on the market at a profit (2)." The banks were driven along the garden path of investment banking by the expansion of credit which took place as a result of the influx of gold into the U.S.A. Prior to the crash, they had become heavily entangled in the stock market boom and finance, on narrow margins, the heavy buying mania which preceded the debacle and lent lavishly against security collateral. Worse still, the banks and their security affiliates acquired, for their own portfolios and for the account of customers of their trust departments, large blocks of newly issued securities.

Such malpractices, superimposed upon a disjointed system of unit banks, the prevalence of fraud and the aberrations of the boom precipitated the financial panic of 1929 and provoked the closing down of thousands of banks. "At the end June, 1929, the Comptroller of the Currency reported a total of 25,110 banks in the U.S., with aggregate deposits of 53,652 millions and loans of 41,512 millions. Exactly four years later, the number was reduced to 15,835 with deposits of 41,857 millions and loans of 21,279 millions". (3)

Instances of excessive participation in industry, followed by disaster, could be multiplied. The Austrian banks were heavily hit by the advent of the Great Depression, and between 1929 and 1934, they had to write down the value of their assets by more than 40 % (4) The same tale of immobilization of resources and consequential writing

(1) C.W. GUILLEBAUD, The Economic Recovery of Germany, p. 22.
(2) ALLEN and Others, Commercial Banking Legislation and Control, p. 28.
(3) A. BAUER, The Twilight of American Capitalism, p. 63.
(4) League of Nations, op. cit., p. 56.

down of assets occurred in Rumania, (1) Hungary, (2) and Belgium.(3) In most cases, the situation was only eased by the adoption of drastic measures of reorganization with state participation.

The widespread bank failures of the early thirties and the losses inflicted upon depositors called forth a spate of drastic legislation against the practice of mixed banking, based on the premiss that "it is in general conducive to the soundness of the banking system and desirable in the public interest to have commercial banks and investment banks as far separated as is compatible with a successful working of both branches".(4) Some laws prescribe a maximum limit, usually a percentage of the bank's capital, to bankers' investment in industrial securities. (5) In order to avoid too much entanglement with any single concern, the bank's holding of the stock of any company is limited to a certain percentage of the capital of that company. (6) While some countries merely require banks to publish details of their security holdings, others go much further in purging deposit banks of "extracurricular activities" by prohibiting them from acquiring permanent interests in industry, from underwriting new issues either directly or through security affiliates and from engaging in large scale operations in stocks and shares for their own account, without express authorization from a competent authority. Finally, in some cases interlocking directorates between banks and industry are prohibited.

In many countries, notably the U.S.A., Germany, Belgium and Italy, special institutions of a quasi-public nature were formed to take over from the banks their sound but temporarily frozen long term industrial advances, and to provide them with fresh resources.(7) Some of these institutions were intended to continue as agencies for providing industry with long term capital.

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(1) *Ibid*, p. 182.
(2) *Ibid*, p. 133.
(3) ALLEN and Others, *op. cit.*, pp. 84-85.
(4) R. GOLDSCHMIDT, The Changing Structure of American Banking, p. 281.
(5) In Norway and Argentina the percentage is 20%.
(6) The German Credit Act of 1934 laid it down that "holding of stocks (except those representing permanent participation in a company) and of bonds not quoted on German Stock Exchanges are limited to a certain percentage of total liabilities less savings deposits. Total investments in real estate and permanent participation may not exceed the capital of the bank. Unsecured credits exceeding 5,000 R.M. may be made only if the borrower submits a full statement of his financial position; and credits to a single borrower must not exceed a certain percentage of the bank's capital". C. G. GUILLEBAUD, *op. cit.*, pp. 93-96.
(7) At one time, the R.F.C. owned a quarter of the capital of American banks.

CHAPTER V

The Future of Industrial Finance in Egypt

(1) *The Future of Bank Advances to Industry.*

Certain conclusions regarding the relationship between "Egyptian" banks and industry emerge from the foregoing exposition. In the first place, the facilities afforded by the banks fall far short of the present needs of industry, especially the indigenous sector and apriori will fail to cope with any future expansion. The credit institutions have competent staffs for dealing with the cotton trade both internally and externally, but they lack the experience and expert knowledge for studying the needs and investigating the financial standing of industrial concerns.

Secondly, there is not a shadow of doubt about the existence of a "MacMillan gap", and while no specialized institutions exist for granting intermediate or long-term credit to industry, there is a plethora of mortgage institutions catering for agriculture. The need for adequate financing is most acutely felt by small and medium size firms, confronted with a steadily expanding demand for their products, yet unable to have access to the money market. The need for a special institution for granting intermediate credit is very marked in a country like Egypt, where the majority of industrial firms are either family concerns of a relatively small size, or small limited companies which cannot afford the large cost of a capital issue especially in view of the grave and real risks of inadequate response from an investing public yet unaccustomed to the risks of financing new and untried enterprises. Lack of adequate finance is undoubtedly one of the reasons for the remarkable reduction in the number of small firms employing 5–9 workers, which has taken place during the thirties.

It would be instructive to interpose here, and compare the situation of Egyptian Industry with that of India. Such a comparison will enable us to discern certain similarities between the problem of industrial

finance and its setting in the two countries. (1) In Egypt as in India, credit banks devote most of their available funds to the finance of international trade, to the neglect of the growing needs of industry. Here, as there, a noticeable schism between foreign banks and the indigenous entrepreneur has given rise to allegations of ostracism on the part of foreign capitalists. But there is one important respect in which the situation differs in both countries, namely the existence of the managing agency system. Despite its grave defects, this much maligned system has rendered incalculable services to the nascent industries of India. Besides assuming the role of Banques d'Affaires in the initiation of new enterprises and, at times, being singly the most important shareholders of industrial companies, they buy and hold large blocks of debentures and make large loans from their own resources to subsidiary companies, especially in the period of gestation when the difficulties of growth are more pronounced. During periods of trade depression, they lend their financial strength to the affiliated group. Furthermore, the personal guarantee of a well known firm of managing agents enables industrial firms to raise funds on less onerous terms than would have been possible had they been borrowing solely on the strength of their own meagre resources. Finally, the managing agents, like the holding companies of the Western world, transfer surplus funds from one concern to another under the same management thereby effecting a certain economy in the total demand of the group for external financial accomodation. (2)

After this brief digression, it is time to study the future of industrial finance in Egypt and to examine the new project for an industrial state bank. It must be noted at the outset, that during the recent war, Egyptian industry has made gigantic strides. New industries

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(1) There are other points of similarity between the recent economic history of India and Egypt. In both countries, industrial development has been slow and haphazard. The share of foreign capital in such progress as has been accomplished has been preponderant, sometimes to the extent of completely over-shadowing indigenous capital. In both countries, local investment came almost exclusively from a small class of wealthy merchants and from the professional classes. Furthermore, there is apparent in the two Eastern countries, a strong and persistent propensity to hoard, a legacy from centuries of political chaos and instability. There is finally a deep-seated love for the land, with the inevitable concomitant that a considerable part of the community's annual savings does not find its way into profitable investment but is "lost" in enhancing the value of the land and other forms of real property.

(2) For an excellent account of the role played by the managing agents see P. Loganathan *op. cit.*, pp. 214-228; and Sanant and Mehta, Organisation and Finance of Industries in India, pp. 121 and f.f.

have been started and existing ones expanded to a considerable extent.(1) Exceptional profits in an inflationary period enabled companies to redeem outstanding debentures, to liquidate bank indebtedness and to accumulate considerable open and undisclosed reserves in liquid form. Moreover, some concerns may be entitled to a considerable refund of excess profits taxes paid during the war. These resources will enable them, in the post-war transitional period, to renew their plant and machinery, sorely overworked throughout the war years owing to the virtual impossibility of importing spare parts and new equipment.

Secondly, banks may, for various reasons, find it to their advantage in coming years to forge closer links with industry. In common with deposit banks elsewhere, they have been suffering from swollen deposits and shrinking advances. Since the "Great Depression", the deposits of credit banks, together with their cash balances and security holdings, have increased (2); but the volume of advances has fallen steadily owing to the chronic depression in agriculture. As a result of falling cotton quotations and the limitation of cotton acreage, competition for the dwindling volume of first class bills is keeping short term rates of interest at low levels. The incursion of the Crédit Agricole Egyptien is depriving credit banks of much lucrative business, especially in financing the cereal crops and the up-country movement of cotton. The aggregate demand for bank advances may also have been affected by the extension of the system of trading "on call" in which the crop passes directly into the hands of merchant exporters without resort to up-country intermediaries. Future trends are likely to work in the same direction. Established concerns and well-knit groups may become self-financing with the more powerful units financing their subsidiary and affiliated concerns. The fall in the yield of gilt-edged securities, especially after the recent conversion operations, may induce the large firms to dispose of securities normally held as reserves, and to use the proceeds to finance current needs. Moreover, there is the possibility that the futures markets may remain closed for a long time to come, with the concomitant loss of bank business transacted with dealers, brokers, jobbers and speculators. The successive moratoria granted to landowners, the downward conversion

(1) Vide Department of Overseas Trade, Egypt, Review of Commercial Conditions, Appendix IV, Estimates of Wartime Development of the Capacity of Egyptian Industry, p. 37.

(2) The Economist, Egypt Supplement, December 4th, 1937, p. 15.

of mortgage interest and the progressive scaling down of annuities may persuade bankers to switch over from land mortgage to industrial lending. Finally, one must reckon with the possibility of an extension in the scope of governmental external trading, a development which would adversely affect the banks' most important source of income.

It is interesting to speculate about the future course of banking policy in Egypt, especially as the liquid resources of the banks have expanded considerably during the war. Will they emulate the example of British banks in their new policy, as expounded in the annual speeches of bank managers for the year 1945, (1) of eliminating the MacMillan-gap by granting loans repayable by instalments "within a rather longer period than the normal run of banking accommodation" (2) to small and promising entrepreneurs? The probability of a rapprochement between foreign banks and Egyptian industry is not remote, in which case they should increase their paid-up capital, thereby raising the ratio of equity to deposits. On the other hand a reversion on the part of the Bank Misr to the old and discredited practices of excessive direct participation in industry is not countenanced by the present management, which was confronted on assuming office with a legacy of discouraging losses and frozen advances. Nor would such reversion be tolerated by the Government, which still has certain rights of supervision, and may exert moral suasion to ensure that the former policy is not resumed. This change of policy on the part of the Bank Misr will have serious repercussions on indigenous industry, depriving it of the principal agency of company promotion. The gravity of the situation may be appreciated if it is recalled that there are no specialized financial institutions to supply new industries with investible funds, at least until a large enterprising class of investors is created.

Various writers have advocated the establishment of an industrial bank to provide long term credit for industry and to cater for the needs of small firms. Continuous clamour in the popular press and in Parliament, where the case for an Industrial Bank had a perennial hearing, has finally borne fruit. In the speech from the Throne, delivered at the opening of the present session of Parliament, (1946), the Government announced its intention to proceed forthwith with the

(1) The Economist, January 27th, 1945, p. 125 and f.f.
(2) Annual Speech of the Chairman of the Midland Bank, The Economist, March 17th, 1945, p. 363.

establishment of an Industrial Bank and the sum of L.E. 500,000 has been appropriated out of the General Reserve Fund for that purpose.

Now, State participation in industrial finance is not an entirely new policy in Egypt. It has had a long and chequered history. In the inter-war period there were sporadic and piece-meal attempts to provide state financial assistance to the growing industry ; and in 1922, upon the recommendation of the Committee on Industry and Trade, a scheme of state assistance to small scale industries was inaugurated. The Bank Misr was instructed to make loans, not exceeding L.E. 1,000, repayable within 5 years, out of funds provided by the Ministry of Finance, (1) at a rate of interest not exceeding 6%. The loans granted by virtue of this scheme rose from L.E. 14,500 in 1923, to L.E. 214,546 in 1926, to L.E. 338,724 in 1929, to L.E. 807,724 in 1933 and to L.E. 1,136,759 in 1938. (2)

However, the procedure of granting loans was extremely irritating to all concerned. Its administration was cumbersome, entailing as it did divided responsibility and overlapping between the Bank Misr and the Departments concerned. Thus, the technical and financial standing of the applicant was scrutinized by the Department (now Ministry) of Commerce and Industry, while the nature and adequacy of the collateral were examined by the bank. (3) Loans of more than L.E. 10,000 but not exceeding L.E. 15,000 required the prior sanction of the Minister of Finance, while those exceeding L.E. 15,000 had to be authorized by the Cabinet. Many a good borrower was unable to obtain a loan because the bank, being the final arbiter, insisted on collateral in the form of real estate or marketable securities. (4) Other strictures were levelled at the scheme. The complicated mortgage formalities were costly, slow and burdensome. It was difficult to pronounce on the financial standing of many applicants who did not keep adequate books of accounts. Finally, political pressure was brought to bear on the administration of the bank and most of the loans went to large concerns, and especially to the Misr Group. (5)

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(1) Subsequently raised to L.E. 10,000 repayable within 10 years.

(2) On December 31 st, 1932, advances totalled L.E. 803,724 and the balance outstanding was L.E. 652,480.

(3) A. Riyal, Industry in Egypt. (In Arabic).

(4) For instance, in 1932, 185 out of 193 applications for industrial loans were rejected for lack of adequate collateral.

(5) Some Indian States had similar plans for providing financial assistance to industry, with equally disappointing results.

A more modest scheme was inaugurated in 1933 to mitigate the heavy unemployment, then rife among graduates of technological schools, by helping them financially to start small workshops on their own. The sum of L.E. 5,000, subsequently raised to L.E. 30,000, was allocated to that purpose and the loans, which were not to exceed L.E. 100 each, gave the Department of Commerce and Industry the right to supervise their investment. Moreover, the Ministry of Commerce sells machinery to small manufacturers on the instalment system.

(2) *Recent Trends in Industrial Finance.*

Before making any recommendations with regard to the future of industrial finance in Egypt, it is necessary to review the experience of and recent development in a number of selected countries, where special agencies of industrial finance have been set up by the State.

Japan was one of the first countries to establish a state-sponsored bank, the Industrial Bank of Japan, to provide finance for industry. The I.B.J. is not an exclusively industrial credit institution being "in reality a hybrid institution" undertaking real estate financing operations. (1) The idea of the bank was conceived shortly after the Sino-Japanese War of 1894, which gave an impetus to Japanese industry. (2) It was then decided to have a number of separate specialized banks for each branch of finance instead of requiring credit banks to add up new activities. The initial capital of Y.10 million was raised by stages to Y.200 million (3) in 1939 (87.5 million paid up) and in 1936 the reserve fund stood at Y. 29 million. The Government is not a shareholder and its assistance consists in granting large loans at a low rate of interest out of funds entrusted to the Post Office Savings Banks and the Treasury Deposit Bureau. Such use of public credit to assist the economy was rendered possible by the virtual absence of public indebtedness. (4) During the first five years, the Government guaranteed a 5% return on the bank's paid-up capital. Naturally it retains a large measure of control and supervision through the right to appoint both the President and the Vice-President.

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(1) H. G. Moulton, Japan, An Economic and Financial Appraisal, p. 175.

(2) Mitsubishi Economic Research Bureau, Japanese Trade and Industry Present and Future, p. 408.

(3) E. Schumpeter and others, The Industrialization of Japan and Manchukuo, p. 483.

(4) G.E. Hubbard, Eastern Industrialization and Its Effect on the West, p. 88.

For its operations, the bank relies to a very large extent on debentures which it can issue up to ten times its paid-up capital. In the balance sheet for the year ending December 31, 1936, outstanding debentures, amounted to five times the share capital and deposits to Y. 232 millions of which 38 fixed, 28 current and 166 special, presumably belonging to Savings Banks and the Treasury. (1) The Bank is authorized to make advances on securities, to deal in and discount bills of exchange and to grant loans on first mortgage of ships, factory sites and buildings. (2) It performs for Joint Stock Companies many of the functions performed in England by underwriters and issue houses. But the Industrial Bank of Japan is not free to take up or underwrite new issues (3) without prior authorization from the Minister of State for Finance. Again, contrary to widely held beliefs, the bank does not provide long term credit to industry except in exceptional circumstances. Loans made by the Bank cannot run for a longer period than 5 years except in the case of loans on ships. (4) Nor does the bank indulge in financing new ventures.

The bank has been used as an instrument of economic planning. It provides finance for state enterprises and for key industries which it was the avowed policy of the Government to foster for reasons of a military order. It helped develop ship-building, transport and other home industries (5) and was instrumental in carrying out the policy of compulsory cartellization and financial assistance to depressed industries. (6) Finally, the Government used the bank as an advance guard

(1) Balance sheet for the year ending December 31, 1936 reproduced in PEIJI SARASAS, Money and Banking in Japan, p. 490.

(2) The granting of medium term loans to industry was facilitated by the Factory Mortgage Law of 1905.

(3) SARASAS, op. cit., P. 280. In 1936, out of the total assets amounting to Y. 632 million, investments, i.e. debentures and stocks, excluding Government paper, accounted for only Y. 51 million. *Ibid.*, p. 490.

(4) S. K. BASSU, Industrial Finance in India, p. 297. *See* also G.C. ALLEN, Modern Japan and its Problems, p. 198.

(5) "We supplied those who are engaged in automobile traffic business with the necessary funds to purchase new vehicles, especially home-made ones to encourage the use of domestic makes." Govern's Speech, August 1936, reproduced in SARASAS, op. cit., p. 480. In 1937, The I.B.J. was empowered to make advances up to Y. 70 million for the purpose of providing cheap credit facilities to the ship-building industry. E. SCHUMPETER, op. cit., p. 778.

(6) In 1930-1931, with two other banks, the I.B.J. lent to the sericulturalists Y. 120 million as part of a valorization scheme for silk. *Ibid.* p. 780. The Temporary Capital Adjustment Law, 1937," provided for special credit facilities for the heavy industries, and permitted the issue of Y. 200 million in savings bonds by the Hypothec Bank of Japan and the issue of an additional Y. 500 million in bonds by the Industrial Bank of Japan". K. I. MIYAMOTO, Japan's Industrial Strength, p. 37.

for its policy of Imperialism, by directing it to invest heavily in China and other parts of the Co-Prosperity sphere. (1)

It was only too natural that, with an ambitious programme of rapid industrialization in a hitherto backward country, serious mistakes and miscalculations should have been made by the Bank, especially that its investment policy was not always based on purely economic considerations. Much of the loans granted to the Chinese Government were irretrievably lost and the Bank sustained heavy losses in 1913, during the depression of the early twenties and again in 1927, when a large part of its advances became immobilized and the Government was called upon to shoulder part of the losses. (2)

In contrast to the Industrial Bank of Japan, the Industry and Mining Bank of Turkey was state owned and controlled. Its object was to speed up the process of industrialization initiated after the first World War. Unlike the I.B.J., it participated in the capital of newly founded companies and was entrusted with the task of managing state-owned enterprises. Under the new five years plan, the activities of the Bank have been transferred to a new institution, the Sümer Bank. (3) In Canada, too, an industrial bank, with a share capital of 25 million is contemplated by the Government. It will be a subsidiary of the Central Bank, specializing in the provision of credit to small scale industries. The Argentine Republic has recently established a "Credit Fund" to foster the development of new industry. (4) In Great Britain too, a number of institutions have been started to provide financial assistance to industry.

The problem of industrial finance in Britain did not come to the fore until the present century. In the 19th century, London was the world's leading financial centre and the country's pre-eminence was built on small scale industries financed by local entrepreneurs and financiers. The host of unit banks which operated prior to the amalgamation movement helped, in a large measure, to direct the flow of local savings into industrial investment and to increase the mobility of capital. On the other hand, large concerns had access to a well developed capital market. The banks refrained from having

(1) G. C. Allen, op. cit., p. 166.

(2) N. Das, op. cit., p. 134.

(3) J. Parker and Ch. Smith, Modern Turkey, pp. 123-124. Since 1939, the management of state industrial concerns has been transferred to a Government department.

(4) Department of Overseas Trade, Argentina, January 1945, p. 65.

close connections with industry and except for some medium term credit to a select group of customers, their role consisted in providing short term loans and in financing the international movement of goods. (1)

The prolonged depression in the basic industries of Great Britain and the chronic unemployment in the "Special" areas called for the adoption of radical methods of financing, as the existing channels, i.e. the banks and the investing public, were reluctant to throw good money after bad. (2) Consequently, a far-reaching breach with tradition was initiated when the Bank of England formed two subsidiary companies. The Bankers Industrial Development Co. and the Securities Management Trust, to preside over the "re-organization" of basic industries and to provide them with funds for the construction of new works and the modernization of equipment. The Bank worked in close co-operation with the leading financial houses of the city. Thus, the 6 million nominal capital of the B.I.D.C. was provided partly by the Bank of England and partly by the banks and other financial institutions, in the ratio of 1:3. Moreover, the new institution had large borrowing powers from the participating bankers in proportion to their holdings. Financial help to depressed industries was usually contingent on their acceptance of certain measures of compulsory cartellization, sometimes entailing the formation of mergers and the closing down of "redundant capacity". But the aid of the B.I.D.C. was refused when the terms upon which the constituent mills were to be acquired "were altogether too liberal" (3). In many re-organization schemes, shares were allotted to creditors, including banks, of the concerns absorbed in the mergers. But it must be emphasized that both B.I.D.C. and the Securities Management Trust "were engaged in salvage work as much as anything else," and were not "concerned with the financing of new industry proper". (4)

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(1) S. E. Thomas, British Banks and the Finance of Industry, pp. 114-116; Sayers, op. cit., p. 227.

(2) Cohrton and Burt, British Industry, pp. 167 and 173.

(3) A. F. Lucas, Industrial Reconstruction and the Control of Competition, p. 158.

(4) A. Grant, op. cit., p. 213. Despite the high standing of the B.I.D.C., certain issues did not find a ready sale because the borrower's credit was uncertain. That was the case with the stock of the Lancashire Cotton Corporation which was marketed at a heavy discount. The Economist, August 25, 1934, p. 365.

Two other institutions were launched. The United Dominions Trust was founded to finance the movement of goods of every type by providing instalment and deferred purchase facilities for periods up to three years. It was intended to bring assistance to new enterprise by " "financing the purchase of equipment and machinery ".(1) The other finance company Credit for Industry was formed by the United Dominions Trust, at the instigation of the Bank of England to supply " additional resources in semi-permanent form to tradesmen and manufacturers.

In February 1940, the B.I.D.C. "ceased to function as a credit institution... Its share-capital was repaid and only the skeleton of the organization remains "(2). However, in January 1945, the Treasury announced its plans for postwar financial assistance to Industry and two powerful finance companies have since been established. The first, Finance Corporation for Industry has a share capital of £ 25 million provided by Insurance Companies, Trust Companies and the Bank of England. Its main object is " the provision of temporary or longer period finance for industrial businesses of the country with a view to their quick rehabilitation ". (3) Its help, mostly by way of " liberal fixed interest loans " should be an addition to existing channels, especially " where a market issue cannot through some temporary cause be made or where the amount required, or the extent and character of the necessary enquiries puts the operation outside the scope of the normal capital issue channels ".

The second, " Industrial and Commercial Finance Corporation " will provide small and medium sized businesses with long and medium term credit. The capital of £ 15 million is subscribed by the Bank of England and the Joint Stock Banks. The two new corporations are a rather belated effort to fill the MacMillan gap and have been conceived to ease the difficulties which British Industry will face in the transition period, just as the B.I.D.C. was rendered necessary by the exigencies of the Great Depression.

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(1) A. Grant, op. cit., p. 214.

(2) The Economist, Banking Supplement, September 30, 1944, p. 5.

(3) The Economist, January 27, 1945, p. 120.

(3) *An Industrial Bank ?*

After this survey of special financial institutions for industry, it is time to venture some suggestions regarding the structure, capitalization and functions of the proposed Egyptian Industrial Bank.

The most appropriate policy is to copy with slight modification the method of capitalization adopted in the case of the Crédit Agricole Egyptien. The capital should be in the neighbourhood of L.E. 4 million subscribed by the Government (30%), the Deposit Banks (30%), the Mortgage Banks (10 %), the Insurance Companies (10%) and the General public (20%). After a first payment on allotment, further contributions should be called pari passu with the expansion of business, the remainder being in the nature of contingent liability. For its working capital it must be allowed to accept time deposits, to borrow from the Government, the Post Office Savings Banks and the Deposit Banks. It must rely to a great extent on the issue of debentures with or without Government guarantee of interest, to finance temporary industrial participations. The bank should aim, as far as possible, at synchronizing the maturity of its own debenture issues with that of its advances in order to provide the requisite funds for redeeming debentures as they fall due. Under this plan, the proposed institution would be in the nature of a finance company for industry, the type of institution advocated by students of banking as the happy medium between the two extremes of complete specialization and departmental banking. (1)

In order to guard against the possibility of political pressure being brought to bear upon the bank for the benefit of sectional interests, its management should be entrusted to an independent board, nominated partly by the Government and partly by the banks, with a number of seats reserved to representatives of principal industries and trade unions. The Bank should enlist the help of the existing credit institutions which possess some knowledge of industrial borrowers and some acquaintance with their problems. This knowledge, coupled with the practical experience of their managers, economic and legal advisers, will be of great help in assessing the merits and financial standing of prospective borrowers. Such an arrangement, by enabling the

(1) Wells, *op. cit.*, p. 330.

Bank to work through existing financial institutions, would meet two important strictures levelled by Dr. Lokanathan (1) against specialized industrial banks, namely that they "would have no industrial experience and be wholly out of touch with industrial needs," and secondly, that they "would work only in one or two big centres and leave the medium-sized industries of the smaller towns and centres absolutely alone."

The purposes of the new Bank should be:

(1) To grant intermediate credit, repayable by instalments, i.e. for periods not exceeding five years, to industrial concerns for the purchase of new machinery and the extension of works. Advances should be in the form of overdraft facilities to be used as need arises. The bank must exercise a certain measure of supervision over the investment to ensure that the proceeds of the loan are not squandered. It should, in particular, help with the purchase of machinery and its resale to small industrialists.

(2) To guarantee, in whole or in part, loans made through existing channels to worthy industrial borrowers thereby enabling them to get financial accomodation at a reasonable rate of interest. It may be recalled that this principle of guarantee has been adopted in the Charter of the International Bank for Reconstruction and Development. (2)

(3) To encourage the Egyptian public to invest directly in industrial issues, and to that end, it should have at its command a body of experts to investigate new issues and to pronounce on the validity of statements in prospectuses, to advise companies as to the time and terms of issue and to approve schemes of financing submitted to it.

(4) To help in converting promising family enterprises into joint stock form, to underwrite and otherwise assist in the flotation of companies. Such intervention on the part of the bank would do much to dispel the shyness of the investing public. In the coming years, and until experience of industrial investment becomes more general, it may be necessary for the bank to undertake not only lending but also temporary participation out of its own funds or of funds raised in the internal money market or through the International Bank for Reconstruction.

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(1) Op. cit., p. 253.

(2) Article IV, Section (III) C. F. Halm, International Monetary Co-operation.

It should, if necessary, guarantee the payment of interest on debentures issued under its auspices and take up blocks of newly issued securities with a view to holding them until the undertaking is fully launched, when they could be disposed of either by direct sale to the public or by arranging for them to be admitted to the floor of the two Stock Exchanges of Cairo and Alexandria. The Bank should never envisage long-term participation except in the case of public utilities where it should hold a majority of strategic shares to ensure control over prices and production.

(5) To arrange loans to municipalities and other public bodies for the purpose of financing schemes of electrification and development. It should participate in financing the gigantic project, now underway, for the electrification of the Assuan Dam, the construction of industrial estates in the vicinity and the assistance of small scale industries to be created in conjunction with the electrification scheme. If a programme of national investment is worked out, the bank would be one of the organs for carrying out its recommendations.

The Bank must not accept sight deposits or grant short-term loans. Moreover, in view of the prohibitive cost of investigation, it should not be required to help in introducing entirely new and untried ventures or in the exploitation of new inventions and patents. There is a consensus of opinion that, owing to the grave risks attending new enterprise, entrepreneurs must rely on their own means and on funds raised with friends and "commanditaires" who have confidence in their ability and business acumen.

The new bank might well experiment with the formation of co-operative credit societies to cater for the needs of the indigenous owners of small workshops who have no access to the credit facilities, owing to their inability to produce adequate collateral and who, therefore, are reduced to seek the help of usurers. Such societies play an important role in Europe. "An official survey of the sources of short term credit for the whole of German industry and agriculture (1933) shows that, of credits up to 20,000 R.M., there were 5 milliards in all, of which private banks supplied 18%, public savings banks 28 per cent and the co-operative societies 54 per cent. Of Co-operative credits, 1 milliard was urban." (1) In Bulgaria, the popular banks or urban credit

(1) C. R. Fay, Co-operation at Home and Abroad p. 182

co-operatives increased in number from 44 in 1914 to 200 in 1933. They use their own resources and raise funds with the Central Co-operative Bank. (1)

The capital of the co-operatives should be divided into shares of small denominations, and their statutes should empower them to finance co-operative merchandising, to accept deposits and to lend against promissory notes, bearing at least two signatures, to any member who can satisfy the management as to the bona fide of the purpose for which the loan is contracted. They should emulate the example of the French Banques Populaires and endorse the bills of exchange signed by members. The crédits co-opératives should be able to borrow from the Industrial Bank amounts varying with their resources, and, to avoid large scale defaults of the type encountered in the case of Egyptian agricultural co-operatives, their ability to borrow should be made to depend on the extent to which, in the past, members have honoured their pledges.

Under Egyptian law, plant and machinery were until 1904 deemed movable chattels and, therefore, could not be offered as collateral security under a mortgage instrument. Hence, loans to industrialists were difficult to grant on any appreciable scale and a modification of the law was a sine qua non for the extension of industrial finance. The law No. 11/1940 "sur la vente et le nantissement des fonds de commerce" permits the mortgage to banks and approved institutions of such assets as trade names, goodwill, fixtures, plant and machinery. It provides for the setting up of a special register where such mortgages could be inscribed and inspected by interested parties. The Law requires debtors to preserve the property mortgaged and introduces certain measures to speed up procedure.

We must now end this chapter on a note of warning. Financial assitance should be extended only to those industries which can withstand foreign competition, i.e. where the technical potentialities of production are greatest or the "comparative cost disadvantage" is at a minimum. The guarantee of principal and interest by the bank and the provision of "cheap credit" are tantamount to a cheapening of production costs and should be a substitute for the imposition or raising of tariffs and other impediments to foreign trade which weigh heavily

(1) League of Nations, op. cit., p. 69.

on the people. Furthermore, in any scheme for a government-controlled industrial bank, there lurks the danger of what has come to be called "The Industry Fallacy". Large loans may be granted to industries the creation or maintenance of which is considered of paramount importance in the "national interest". New enterprise may be discouraged for fear of its advanse effects on the legitimate expectations of vociferous vested interests in close touch with the ruling clique. Protection for the industries in which the Bank is heavily interested may be intensified, thereby adding extra burdens on the poverty stricken population. Finally, the Industrial Bank may be dealing predominantly with "poor risks". (1) Hence great care should be exercised in selecting borrowers, lest it degenerates into a philanthropic institution.

(1) "Any concern devoting itself to industrial financing faces peculiar difficulties for it must have a considerable capital and yet it is without a bread and butter business such as ordinary deposit banking or acceptance business provides". Committee on Finance and Industry, Report, p. 172.

CHAPTER VI

The Location of Industry

(1) *The Present Pattern of Location and its Causes.*

In this chapter, it is proposed to study the present locational pattern of Egyptian industry, to account for its uneven growth, to discern the germs of probable future trends and, finally, to examine the case for a moderate measure of state intervention designed to equate private and social considerations in conformity with current views.

The most striking feature of the location of industry in Egypt is the high degree of concentration of diversified industries in both Cairo and Alexandria. The following data collected from recent industrial censuses, [1] though not strictly accurate, owing to the technical difficulties of compilation in an economically backward country, the suspicions of entrepreneurs and their reluctance to divulge information pertaining to their business lest it be a prelude to the imposition of new fiscal burdens, [2] are sufficient to give a clear picture of the present position.

In 1927, of the total industrial establishments numbering 70,314, 16,885 (i.e. 24%) were located in Cairo and 8,540 (i.e. 12%) in Alexandria; while, in the same year, the total population of Egypt amounted to 14,200,000 of which 1,065,000 lived in Cairo and 573,000 in Alexandria. A more accurate measure of the growth of medium and large scale modern industry and its concentration is arrived at by relating the number of establishments employing more than 5 workers in the two principal towns to the aggregate total for Egypt. This is shown in the following Table:

TABLE I.—ANALYSIS OF INDUSTRIAL ESTABLISHMENTS EMPLOYING 5 WORKERS AND ABOVE, 1927

No. of Workers	All Egypt	Cairo	Alexandria
5-9	5,352	1,448	699
10 and above	2,653	594	512

[1] Vide Egypt, Industrial Census 1927 and 1937. The provisional figures for 1942 are to be found in the Statistical Abstract for 1945.

[2] This is particularly true of the 1937 census which co-incided with the repeal of the Capitulations and the wide-spread preparations made by the government of the day for the introduction of income taxation.

Thus Cairo, with a total population of 7.5% had 27% of the total of workshops employing 5-9 workers, and 37% of those employing 10 workers and above. While Alexandria, with 4% of the total population had 13% of the former category and 18% of the latter. Another measure of the extent of concentration of industry in Cairo and Alexandria is the figure showing the number of establishments per 100,000 inhabitants. This was 456.9 for all Egypt, 1592.9 for Cairo, 1498.3 for Alexandria and 358 for the rest of the country. Again, of the total number of factory workers amounting to 215,438, including employees but excluding craftsmen working without outside help, 65,057 (30%) were in Cairo and 41,125 (20%) were in Alexandria.

The Industrial Census of 1937 tells the same story. Of the total industrial establishments numbering 92,621, 19,305 (21%) were located in Cairo and 10,171 in Alexandria. In the same year, their population had increased to 15,900,000 of which 1,312,000 lived in Cairo and 685,000 in Alexandria. Table II shows that Cairo with 8% of the total population had 26% of the workshops employing 5-9 workers and 40% of those employing 10 workers and above. While Alexandria, with 4% of the total population had 10% of the former category and 20% of the latter. The number of establishments per 100,000 inhabitants was 578.7 for the whole of Egypt, 1,485 for Cairo, 1,483 for Alexandria and 449.9 for the rest of the country. Again, of the total factory population amounting to 273,467 workers, 84,718 (31%) were in Cairo and 44,479 (16%) were in Alexandria.

TABLE II.—ANALYSIS OF INDUSTRIAL ESTABLISHMENTS EMPLOYING 5 WORKERS AND ABOVE; 1937

No. of Workers	All Egypt	Cairo	Alexandria
5-9	5,030	1,319	573
10 and above	2,687	1,045	529

For 1937, two more indices are relevant. An analysis of the statistics of machinery in operation shows that of a total number of machines employed in industry amounting to 6,429 (575,580 I.H.P.), 734 (106,224 I.H.P. 19 %) were installed in the Cairo area, and 476 (86,061 I.H.P. 15 %) in Alexandria. Finally, an examination of the figures of "declared capital" in the 1937 Industrial Census yields the following striking results. Of 592 establishments with a capital ranging from L.E. 1,000 to 1,999, 166 were in Cairo and 79 in Alexandria ; similarly of 814 establishments with capital exceeding L.E. 2,000, 286 were in the former and 238 in the latter. No other province of Egypt claimed more than 50 establishments in either category. (1)

On the basis of available data for the year 1937, we can reconstruct a rather crude locational factor for Egyptian industry in general, by dividing the percentage of industrial population in a number of areas by the percentage of total population residing in the areas concerned. The figures for Cairo, Alexandria, the provinces of Gharbieh and Dakahlia in Lower Egypt would be 4, 4, 1 and 0.5 respectively, indicating a high ratio of concentration in the first two.

The array of figures given above proves conclusively that Cairo and Alexandria have had a very large share of the developing industries, even if no account is taken of those providing personal services, ministering directly to the needs of the population and expanding with its growth. Various factors have contributed to the preponderance of the two cities in the industrial field.

In the first place, as we have already had occasion to remark, foreign nationals and residents of foreign extraction have, until very recently, been the most active element in the commercial, financial and industrial fields. Consequently, except in the case of industries connected with the procession of raw materials, where technical considerations necessitated the location of plants in close proximity to the source of supply owing to the resultant saving in transport costs, manufacturing industry has tended to be localized in and around the two big cities, owing to the availability of foreign financiers willing to participate but anxious

(1) In June, 1942, a provisional census, undertaken for the purpose of introducing war-time emergency legislation, shows that of the total industrial establishments, numbering 105, 259, 25, 702 (23 %) were located in Cairo and 8,881 (9 %) in Alexandria, a reduction due, presumably, to evacuation and sporadic aerial bombardment. Of the total number of concerns with five workers or more, numbering 7,278 (employing 294,925 workers), 3,015 (40 %, employing 73,490 workers) were located in Cairo and 836 (11 % — employing 31,230 workers) in Alexandria. Of the total number of workers in industry : 284,384, 101,306 (i.e. 35 %) lived in the Cairo Area and 39,716 (i.e. 14 %) in Alexandria.

to keep their ancillary business close to their main pursuits of commerce and finance.(1) The availability of both capital and entrepreneurial ability in Cairo and Alexandria, was a decisive factor in the development of industrial enterprise there. In the latest pre-war census, the number of foreign owned industrial concerns was 3,968, of which 963 (25 %) were in Cairo and 1,303 (32 %) were in Alexandria.(2) Foreigners preferred to start industrial enterprises at or near their place of residence owing to the imperative need for exercising control over them particularly in the period of gestation.(3)

Furthermore, the entrepreneurs and their staffs of skilled technicians and clerks were naturally inclined to prefer living in the two large towns, which were fairly well endowed with the amenities of Western civilization to which they had been accustomed ; their large number afforded them some protection in an alien land, while their aggregation created a demand for more amenities, which would not have been forthcoming had they been living in smaller colonies scattered all over the country. Recent economic history records a similar instance. The foreign manufacturing firms which came to England after the establishment of high protection in the early thirties tended to concentrate in metropolitan centres such as London and Manchester "in order that foreign administrative staff and keyworkers imported with the process may be able to enjoy the society of their own nationals, who naturally tend to collect in 'colonies' in the larger centres only."(4) But it must be emphasized that foreign financiers were not swayed by their personal idiosyncrasies to forsake considerations of demand and cost. On the contrary, as will appear in the process of our analysis there was a large element of rationality in their decisions, resulting, as it were in a double co-incidence of economic and personal considerations.

(1) It is possible to discern here an analogy with Great Britain. The authors of the P.E.P. report on the Location of Industry remark, (page 9) : "Men who have the resources and temperament to be financial backers of a new enterprise tend to live in the South, and to favour, mainly, if not exclusively, projects in that part of the country, so that they can keep in touch without the inconvenience of long journeys". Dr. S. Dennison remarks, however, that this luxury has been made possible by radical changes in industrial technique resulting in the decline of the attracting power of old centres of raw materials and coal.

(2) This does not include the many "Egyptian" companies formed with European capital.

(3) The same factor has been at work in India. "The managing agents' sphere of influence is in North India ; but South India has not attracted them to the same extent as Northern and Western India". P. S. LOKANATHAN, Industrial Organisation in India, p. 73.

(4) P.E.P. report on the Location of Industry, p. 26.

Secondly, Cairo and Alexandria contain large aggregations of population, 1,312,000 and 685,000 respectively in 1937, out of a total of approximately 16 millions.(1) The former is the capital and an important inland port, while the latter is the leading port.(2) They are the principal centres of commerce, finance and the distributive trades. In 1937, the total number of shops with capital exceeding L.E. 1,000 was 3,382, of which 1,250 were in Cairo and 1,077 in Alexandria. Apart from their numerical superiority, the volume of effective demand concentrated in the two principal cities is more important than that encountered in any other urban centre, and income per capital is consequently higher. Both centres have benefited from the prosperity engendered by successive waves of investment, private and public. The regional inequality of income in Egypt is further aggravated by the tradional preference of landlords for the pomp and ostentatious living of the big towns, and it is legitimate to assert that, for all analytical purposes, the countryside is nothing but a gigantic "depressed area".

In view of this phenomenon few industries, catering for the large demand of Cairo and Alexandria, could find other locations with advantages, in the shape of cost-reductions, outweighing the large transport costs which would be incurred in sending the bulk of their goods to the two leading markets. In Egypt, locations near the market was important in view of the fact that few of the major industries were dependent on particular sources of raw materials or power which might have acted as a magnet. In other words, technical factors, dictating location in particular regions, were less important in Egypt than they were in the great industrial centres of the West during the nineteenth century. The virtual absence of coal and iron deposits has meant that industry was not destined to be located in particular regions by the attraction of power sites or the concentration of bulky raw materials.(3)

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(1) In 1937, the population of the 11 towns of 50,000 inhabitants or more was 2,839,000; that of the 164 with between ten and fifty thousands was 2,647,000.

(2) In 1938, the figures for the foreign trade of Egypt were as follows: Imports, L.E. 36,104,000, Exports 29,342,000, Re-exports 783,000. The share of Alexandria was L.E. 28,697,000, 27,148,000 and 454,000 respectively. Annuaire Statistique, 1937-1938.

(3) Unlike India or the U.S.A., Egypt is small in size, and, except in a few cases, transport costs do not constitute a decisive element in location. Furthermore, the policy of discrimination in railway charging, known as "charging what the traffic will bear", renders location near the market more advantageous save where large quantities of bulky or weight-losing raw materials are used in the process of production.

Thirdly, at the time of the introduction of modern industry, both urban centres were served with an efficient system of railways and communications. Moreover, Cairo is an important Nile port lying at a distance of 212 kilometres from the main sea port, while Alexandria is connected with the Nile by a large and commercially important canal. The ease of communications was a decisive factor in view of the fact that industries, using large amounts of coal, had to import all their requirements, and a long haul inland would have led to a substantial increase in the price of coal and other valuable raw materials imported. Lack of transportation militated against the establishment of large factories outside the two great cities, unless the entrepreneur was willing to incur the cost of providing the necessary transport.

The comparative disadvantage of country-districts(1) was aggravated by the railway tariff, which was framed with the avowed object of yielding the highest possible revenue for the state, whose freedom to impose direct taxation was circumscribed by the shackles of the Capitulatory regime. The monopoly position of the railways was assured in the absence of an efficient network of navigable canals. Egyptian canals were primarily designed for irrigation and some of them become dry after the flood season, while others are in a terrible plight owing to inadequate dredging. Unfortunately, the advent of the internal combustion engine did not enhance industrial mobility, especially in the case of those industries where the cost of transport by road is less than the cost of carriage by rail. This is due to the deplorable state of the dirt tracks and the lack of a rationally planned system of arterial roads, not to mention the restrictive policy imposed on road hauliers to preserve the value of state investment in railways. Nevertheless, a new development is manifesting itself. Certain consumers goods industries, not directly connected with the exploitation of natural resources or the processing of agricultural products, have come more and more to be located on the fringe of the two large cities and farther afield, owing to recent improvements in the road system undertaken after the conclusion of the Anglo-Egyptian Treaty of Alliance. Hence

(1) Both the Sugar Company and the Salt and Soda Company Ltd., had to provide their own transportation.

the growth of satellite towns such as Tourah, Maasarah, Shoubra El Kheima, Kafr El Dawar and Beida.(3)

Fourthly, in the two large cities, the supply of labour was both more abundant and reliable than in rural areas, where industrial work is taken up by the peasants as a side line to their agricultural pursuits. They swell the labour market in the lack season but leave their jobs as soon as work becomes available on the land. Hence, firms located there, suffer from a markedly high labour turnover and absenteeism. The increase in the demand for labour by industry in Cairo and Alexandria has caused short distance ripples of migration from adjacent country districts and long distance migration from the poverty-stricken regions of Upper Egypt. New firms can thus easily attract labour from branches of industry using similar processes or from the ranks of the unemployed. Any shift to rural centres is likely, in the absence of Government intervention, to be retarded by the dearth of housing and other facilities and the necessity of incurring large outlays in providing workers tenements. Moreover, owing to the fact that the rate of literacy is higher in towns than in country districts, the supply of semi-skilled labour capable of tending machinery is more elastic in the former than in the latter and the time required for training new recruits is correspondingly shorter, with a concomitant reduction in training costs. In the factory industries, the old craftsmanship of the rural centres is not relevant, as a semi-skilled, machine-minded type of worker is more in demand, and, in some cases, the traditional type of skill is more of a liability than an asset to the worker.

It would be erroneous to conclude from a cursory study of wage statistics that inter-regional differences in wage rates and hours of work between town and country are of sufficient magnitude to induce entrepreneurs to locate new plants in country districts. In 1943, average weekly wages in Cairo, Alexandria, the Canal Zone, Suez and Damietta were P.T. 91, 124, 145, 176 and 82 respectively, while wages in Upper Egypt ranged from P.T. 47 to 78, and in Lower Egypt P.T. 46 to 84. Yet the figures are misleading in so far as they lump together heterogeneous industries and fail to differentiate between various degrees of skill. Moreover, they disguise the obvious fact that factory

(3) In future, this tendency will be accentuated as a result of the vast programme of road construction and overhead undertaken during the war that has just ended. The choice of Kafr-el-Dawar and Beida for the site of the Misr-Bradford textile firms has already created a thriving industrial environment of a rural area. It has since attracted other firms such as the new giant rayon mills established by the Misr Group, in conjunction with a consortium of American Capitalists.

employment is concentrated in towns, while in the country, crafts predominate so that in the former, the marginal productivity of labour and its wages are higher. It is common knowledge that rural factories are forced to pay their skilled and semi-skilled workers rates approximating or even exceeding those ruling in urban centres lest they find their staffs depleted by migration.

Finally, besides the ease and availability of transport, Cairo and Alexandria were the only localities with satisfactory supplies of pure water, gas and electricity. Power generating plants were established early in both cities, and the companies were anxious to encourage industrial users during daytime (the off-peak period) by price discrimination in their favour with a view to securing fuller exploitation of plant capacity. Mr. Dèrra estimates that in 1934 the production of electricity reached 220 million kW. from 65 plants having an installed capacity of approximately 165,000 kW. 90 % of this energy was produced in Cairo, Alexandria and certain ports of Upper Egypt.(1)

The previous analysis does not exhaust the advantage enjoyed by Cairo and Alexandria. More than anywhere else in Egypt, they afford entrepreneurs a chance of benefiting from other aspects of external economies, which emerge as a result of the growth of industrial activity at a particular locality(2). The initial growth of industry has called forth many subsidiary branches catering for its needs. New firms are in a position to "buy in" certain services and component parts on the spot without having to incur the expenditure of producing them from their own scarce resources. Moreover, a cumulative process has been at work. Early concentration of consumers with effective demand led to the growth of industry; and this, in turn, led to the growth of subsidiary and complimentary industries and services. With the acceleration in the rate of population growth came a further expansion of industry to cater for the increased demand, and the acquired advantages tended to crystalize, thereby militating against the emergence of important new industrial centres.

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(1) A. J. Dessa, L'électrification de l'Egypte, Egypte Contemporaine, Vol. XXVIII. The writer further remarks that consumption doubled between 1929 and 1934, largely owing to increased demand by industry.

(2) The importance of these economies tends to diminish after a certain point. Excessive localization may give rise to external diseconomies. Thus, the transportation system may become congested and, with the increase in its number, labour becomes more militant. See Haberler, G.: "The Theory of International Trade", p. 198 and ff. But in Egypt, industrial centres have so far not attained the stage of benefiting from a high measure of external economies.

Special Cases of Location: A study of the location of a selected number of industries.

The optimum location from the point of view of an entrepreneur is that which yields the lowest total cost per unit of output. Before deciding on a particular site, he must estimate the cost of transport of raw materials from existing and prospective sources, comparing them with the cost of transport of the finished products to the markets, actual and potential, in the light of the pricing policies of the various transport media available, and of possible shifts in their relative importance. "A given variation in cost, due to differences in location, will be of major or slight importance according to whether the particular cost is a large or small relative item in total cost.[1]

It has been stated earlier that technical factors were sometimes of paramount importance in the determination of location by forcing entrepreneurs to choose from a more or less narrow range of districts where, as a consequence, a high co-efficient of localization obtains; in such cases, transport costs are usually found to constitute a large relative item in total costs and because of the concentration of raw materials,[2] their bulkiness and weight-losing qualities. The obvious cases of location, decreed by technical considerations such as those of mines, quarries and salines, will not be discussed here. Suffice it to mention that the choice of deposits[3] to be worked has been influenced by the availability of transport, as when mineral deposits bordering the Red Sea were worked to the neglect of equally rich deposits situated further inland. Or it has been influenced by the availability of markets, via the influence of the latter on total costs, as in the case of the salines located in Alexandria and catering mostly for the home market, and those of Port Said which have important trade connections with India and South East Africa where salt is shipped as bunker through the Suez Canal. In what follows, a brief account is given of the factors determining the location of a number of industries.

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(1) S. R. Dennison, The Location of Industry and the Depressed Areas, p. 45.

(2) "The power of a raw material to attract an industry depends in the first instance upon the importance of transport costs of the material in the total costs of production." *Ibid.*, p. 45 (see Note 1, page 187).

(3) For example, phosphate deposits are found in various parts of the Western and Eastern Deserts of Egypt, but the cost of transport has confined exploitation to the the Red Sea area.

Cement: The main plants are located at Tourah, Maasarah and Helwan near Cairo in the immediate vicinity of the limestone deposits at the foot of the Mokattam Hills; Shoal (Taffl) is brought by sailing vessels from the near-by village of "El-Saff". Coal is imported while gypsum is brought from the rich deposits at Ballah near the Suez Canal; but the cost of transport of these two commodities is small relatively to total cost. As the materials are of little value in comparison to their weight, a location other than at the source of rich deposits would have led to a substantial increase in transport costs and would have adversely affected the competitive power of the industry, especially prior to the recent majoration of tariff rates, in the markets of the Cairo Area and the important public works along the Nile. Hence it is probably true to say that the present location effects a great saving in delivery costs and represents the least possible transport cost combination. Different considerations, however, apply to the Alexandria factory, which is a branch of an Italian concern relying on the import of raw materials from the Dalmatian coats. The choice of Alexandria, an important market, as a site, enabled the concern to keep transport costs to a minimum with the help of rebates secured from Italian navigation combines.

Sugar: The sugar industry, employing 27,000 workers, is located in Upper Egypt. The refinery of the Société des Sucreries et de la Raffinerie d'Egypte, the sole producer, is at Hawamdieh, near Cairo, while the crushing plants are situated along the Nile, at Sheikh Fadl, Abou Kourkas, Armant, Nag Hammadi and Kom Ombo, at distances ranging from 267 to 834 kilometers from the capital. The numerous molasses factories are found near the mills, while the great alcohol plant is at Tourah, not far from the refinery. This concentration was not a feature of the industry when it was started as a semi-public enterprise in the reign of Ismail, but evolved with the introduction of highly mechanized cost-reducing processes and the increase in the scale of operations.

Various reasons account for the concentration of the industry in the South. In the first place, geographical considerations, i.e., the availability of suitable land, a highly developed system of irrigation, favourable climatic conditions and an abundant supply of cheap labour make the South eminently suitable for sugar cane growing. However, towards the end of the 19th century a persistent rise in the price of cotton relatively to that of sugar cane led to a disturbance

of the then existing system of land utilization, and substitution occurred on a large scale with cotton invading the marginal lands of Middle Egypt. The process of substitution reached its climax in 1902, when the area under sugar cane decreased from 87,000 to 72,000 feddans.(1) In order to reduce uncertainty and to ensure a steady supply the sugar combine regularly enters into long term contracts with producers, and grows part of its annual requirements.

Secondly, it is a well-known fact that sugar cane crushing plants must be located in close proximity to plantations. Delays in crushing cause deterioration to, and lowers the saccharose contents of the stalks.(2) In the last decades of the 19th century, the southward migration of sugar cane led to the closing down of many sugar mills belonging to the Daïrah Sanieh in the district of Middle Egypt. Moreover, the value of sugar cane is a very important element in the cost of production of sugar. Thus, in the financial year ending 31st October, 1940, the total expenses of the sugar combine amounted to L.E. 4,413,085 of which L.E. 1,258,844 represented the purchase price of sugar cane.(3) Finally, this raw material loses much of its weight in the process of manufacture and this fact favours location near the plantations. In the crop year ending 30th September, 1944, a total of 1,651,770 tons of sugar cane yielded 167,651 tons of sugar or about 10%.(4)

It has been contended that the sugar industry "could have effected a useful saving in transport costs, had the refining factory been located in between the raw sugar factories in such a place that the bulk of raw sugar produced would have had a short haul to the refinery. This is on account of the fact that raw sugar is a little heavier than refined sugar".(5) The writer goes on to point out that the distances as they appear in the majority of cases are very large. Various comments are pertinent to this criticism. At the time of its inception the area

(1) In 1939, the area under sugar cane was 72,263 feddans as against 1,624,617 under cotton.

(2) Martel, Le Sucre en Egypte, p. 126.

(3) Operating expenses were L.E. 2,972,244 and transport costs amounted to L.E. 129,828.

(4) Although the long haul from the ports to the mills enhances the cost of coal, fuel is not a very significant element in total costs; the company has installed fuel-using machinery and endeavours, as far as possible, to use the remnants of sugar-cane, as fuel.

(5) A. A. Imam, The Costs of Transport and the Location of Industry in Great Britain and Egypt, p. 426 typescript.

adjacent to the refinery was one of the important centres of sugar cane cultivation and it was only as a result of the south-ward migration of the industry that the present situation arose. Moreover, the company has always imported large quantities of raw sugar to help work the refinery nearer to capacity. These imports are destined for re-export, together with any surplus over and above home consumption(1) and the northerly position of the refinery reduces the cost of transport of both imports and exports.

Again the demand for refined sugar emanates from the towns of North and Central Egypt, while the poverty stricken inhabitants of the South consume part of the raw sugar produced there. Thus, some raw sugar is not sent to the refinery but is consumed on the spot, and hence does not give rise to cross-freight. Finally, owing to the fact that transport costs for raw sugar are below those for refined, location near the important markets leads to a saving in the total transport bill. The relative importance of transport cost decreases as sugar cane is transformed into raw and refined sugar. However that may be, the virtual monopoly enjoyed by the company, combined with the system of railway rebates and the government-sanctioned "resale price maintenance" agreement render any suggestion for re-locating the refinery of purely academic interest. The guarantee of profit and the prohibition of imports are not conducive to attempts at cost reduction.(2)

Cotton :

(a) *Processing.*—A salient feature of the cotton processing industry is the wide contrast between the location of the ginning and the pressing sections. In 1938, there were 119 ginning mills scattered all over the country, with some concentration in the great up-country markets of Lower Egypt such as Mehalla, Kafr El Zayat, Banha, Zagazig and Mansourah. This multiplicity is due to the saving in transport costs which results from the

(1) The 1931 Convention stipulates that imported sugar must be earmarked for re-export.

(2) "A plant on a relatively disadvantageous site may continue to flourish indefinitely owing to factors such as price agreements wich inhibit perfect competition", P.E.P. Report, p. 18. In America monopolistic practices such as the Pittsburgh Plus system of pricing have a pronounced effect on the location of industry by obliterating differential cost advantages derived from favourable location.

local preparation of the crop. In contradistinction to the dispersal of ginning mills, the steam pressing sector of the industry is located in Alexandria. The high degree of localization and concentration obtaining there is evidenced by the fact that, in the 1939-1940 season, 7,914,237 Kantars out of a total crop of 8,692,000 Kantars (exports: 7,502,083) were processed by the four giant concerns located along the Quayside at Alexandria. The reasons for this concentration are twofold. First, Alexandria is the first port, and the great cotton markets (spot and futures) are located there; and secondly, steam pressing requires large capital, and substantial economies of scale are realized when there is a large and continuous supply of cotton to the mills. Such economies more than outweigh any saving in transport cost which might occur from carrying out the "steam" pressing operations at the scattered ginneries.(1)

(b) *Spinning and Weaving.*—The handloom weaving section of the industry is widely scattered as it caters mainly for a purely local market. However, there are age-old centres of great renown such as Mehalla, Kalioub, Damietta and Cairo. The industry uses both local and imported yarn, and it has been given a fillip by the cessation of imports during the recent war, but it is easy to prophesy that this section is doomed to extinction in the not too distant future. On the other hand, the mechanical spinning and weaving of cotton, and other fibres, are highly localized. Thus in 1940, out of a total daily production estimated at 112 tons of yarn, 49·5 tons (45%) were produced in Mehalla, 48 (42%) in Alexandria, 13 (9%) in Kafr El Dawar and 1·5 in the Cairo area.(2) In the same year, out of a total of 8,326 mechanical looms in operation, 4,300 (50%) were

(1) Primitive soap manufactories are fairly scattered; but the important factories as well as those of cotton-seed oil are located in such places as Kafr El Zayat and Alexandria where there is a large trade in grain. The case of the Société Misr pour l'Industrie des huiles provides an illustration of faulty location. Originally located at Beni Korra in the heart of Upper Egypt, where the seed is not eminently suitable for the production of edible oil, it had to contend with intense competition from the mills in Lower Egypt, more favourably located with regard to markets inland and foreign. The plant has since been transferred to Kafr el Dawar and Manassourah in Lower Egypt.

(2) A. EHAN, L'Industrie du Coton en Egypte, p. 66. It may be noted in passing that the majority of factory workers in Mehalla are engaged in in the various branches of the textile industry.

in Mehalla, 2,500 (30%) in Alexandria, 1,205 (14%) in Kafr El Dawar and 304 in the Cairo area.(1) An analysis of joint stock companies in the textile field(2) reveals that of a total paid up capital of L.E. 4,072,000, the capital of companies operating in the Alexandria area, taken broadly to include Kafr El Dawar and Beida, amounted to L.E. 2,355,000, while the shares of Mehalla, Cairo(3) and Damietta were L.E. 1,000,000, 592,000 and 125,000 respectively. It is abundantly clear that Alexandria and Mehallat are the main centres of the industry and we proceed now to analyse their relative merits.

The early textile mills of the Anglo-Egyptian Spinning and Weaving Co. were established in Cairo and Alexandria.(4) The decision to choose Mehalla, in the heart of the Delta, as a site for the Misr Mills constituted a departure from the traditional practice of foreign entrepreneurs. The ostensible reasons for that decision(5) were declared to be the high degree of humidity, the availability of skilled labour in the ranks of handloom weavers, situation in the centre of a great cotton producing region with good transport relations with the rest of the country, the availability of cheap land and the low local rates levied by municipal authorities. Many of these supposed advantages of location at Mehalla are found, on examination, to be without foundation in fact. The difference in the degree of moisture between Alexandria and Mehalla is negligible and it is notorious that artificial humidifiers are installed at the Misr Mills in order to regularise the rate of moisture

(1) *Ibid.*, p. 109 (*see* Note 2, page 196).

(2) This comprises all the stages of production including finishing. In Cairo there is a number of artificial silk factories and a linen mill. The Damietta Mill originally engaged in the spinning and weaving of silk has been converted to cotton during the recent war.

(3) Mostly made up of medium sized concerns of L.E. 100,000 or under.

(4) The former was subsequently closed down; on its re-organization the company's name was changed into the Filature Nationale d'Egypte. In its early stages, the company relied mainly on exports to the Levant countries and benefited from the free trade regime then ruling in the Ottoman Empire.

(5) "Mehalla is actually located in the centre of a very big market. Geographically Mehalla is very near to the centre of the Delta. Mehalla has also the reputation of being an old centre of textiles, and the existence of skilled workers in Mehalla may have been a good attraction for the promoters of the Misr Spinning and Weaving Co.". M. A. Ismail, *op. cit.*, p. 401. "A further factor which works against Alexandria and in favour of Mehalla is that the latter is situated in an area of low wages". *Ibid*, p. 402. The writer also mentions humidity and cheap land among the attractions of Mehalla.

in the air and to avoid sudden variations. In the outskirts of Alexandria land is as cheap, if not cheaper, than in Mehalla. It is true that the Alexandria Municipality levies local rates and is entitled to a small percentage over and above the national rate of taxation of industrial and commercial profits, but this must not blind us to the quid pro quo in the form of better amenities. Besides, the rate differential does not have any appreciable effect on total cost and is not, therefore, an important locational factor.

Furthermore, nearness to the cotton fields is not a decisive factor, as witnesses the phenomenal growth of the cotton industry in areas such as Lancashire, Alsace, Japan and the North Eastern States of the U.S.A., which procure their raw materials from distant lands. Moreover, spinning requires a blend of many grades of cotton, an ample and continuous supply of which is procurable only in the great cotton market of Alexandria. As a matter of fact, the Mehalla Mills secure a great deal of their requirements of low grade cotton for the manufacture of the coarser variety of yarn in the Alexandria market, the remainder being bought at up country districts through the intermediary of the branches of the Bank Misr and the Misr Ginning S.A.E. (1) In any case, location near the cotton belt and away from the great markets of Cairo and Alexandria necessitates the carriage of finished goods by rail to these markets. This is a costlier proposition than transporting raw cotton, because the latter does not lose much weight in the process of manufacture, and also because the freight classification of Egyptian State Railways is based on value. (2) Mehalla is thus seen to be in a worse position than Alexandria insofar as the greater part of its purchases of raw cotton and its sales of finished goods must undergo a long haul. The former cannot be met from a single region (3) and the markets for the finished product are fairly scattered.

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(1) The privilege of selling low grade cotton to the Misr Spinning Co. is one of the attractions of dealing with the Bank Misr.

(2) The special rates granted to the company go a long way towards counteracting this disadvantage.

(3) The more widely the sources of raw materials are scattered the less is the localising influence under competition.

Alexandria, on the other hand, has an important market near at hand for the purchase of cotton and the sale of cotton goods.(1)

The last point referred to earlier in the text is the large wage differential between town and country, the average level of wages in Mahalla being approximately 70% of that ruling in Cairo and 60% of that ruling in Alexandria, and the fact that labour in rural areas is not highly organized. However, as was argued perviously, Alexandria has a large supply of semi-skilled adaptable workers possessing the qualities required for mechanized industry whereas the Mehalla mills had to provide courses of study and training for their workers and to send a number of promising young men on educational missions abroad. They suffered from the uncertainly associated with investment in persons, namely that, once trained at the expense of the employer, the worker may seek alternative and more lucrative employment. Moreover, as with the new mills in the cotton belt of the U.S.A. the advantages of docile labour were found to be transient as industrialization has created a favourable environment for the growth of trade unions, and the latter may yet prove to be invaluable in smoothing employer-employee relationships.(2) It is inevitable to conclude that, as things are, the choice of Mehalla, was the result of inertia and was made under many mistaken impressions.

(2) *Future Trends and State Policy*

Recent economic changes in Great Britain and the U.S.A. have focussed attention on the dynamic factors affecting the location of industry. In the 20th century, Great Britain has experienced structural changes in the demand for its basic industries as a result of the decline in the importance of overseas markets, coupled with the enhanced importance of the "sheltered" home market. The chronic decline of the industrial regions of the North and of South Wales was

(1) On the assumption of the equality of production costs, and the absence of discrimination in favour of long as against short haul, a series of "indifference curves" could be constructed to show that East of the Damietta Branch of the Nile and in the middle of the Delta Mehalla has some advantage; while in Alexandria, Behaira and for Export Alexandria is more favourably placed. It must be remarked, however, that the existance of a joint marketing organization and of resale price maintenance reduce the importance of such factors.

(2) At the time of writing, Mehalla has one of largest and most powerful unions with a membership exceeding 27,000.

accompanied by an increase in the importance of the South, with a concomitant increase in the number of insured workers living there. This trend constitutes a reversal of that witnessed during the 18th and 19th centuries, when the new techniques engendered by the "Industrial Revolution" favoured location near the iron and coal deposits of the North.

In Egypt similar changes have been at work. In the previous pages we registered certain shifts, such as the southward migration of the sugar industry and the decline in rural industry, accompanied by increased urbanization and the concentration of industrial workers in Cairo and Alexandria. Prior to the introduction of mechanized industry there was a marked diffusion of domestic industry and crafts providing the local market with convenience goods. Instances of localization were, however, not entirely absent. Thus crafts producing speciality goods for tourists and rich town dwellers were concentrated in certain streets in the larger towns so as to allow prospective buyers a chance to compare quality and price. The silk industry had its main seat in Damietta because of the ease of importing raw silk and of exporting the products to the Ottoman Empire. The textile trade had a number of other seats in Upper Egypt and the Delta.(5) However, the import of cheap mass produced goods from Europe, after the opening of the country to trade and the gradual westernization of the taste of the bourgeoisie had serious repercussions on these ancient seats and the development of modern industry at home is administering the coup de grace.

Other economic and technical changes are at work which, if allowed full sway, may have an important bearing on the future location of industry. The development of road transport, by breaking up the monopolistic hold of the railways, may minimize the importance on location near the railways. The proposed electrification of Upper Egypt through the execution of a grandiose scheme for the generation of hydroelectric power from the Aswan Dam may attract new industries to Upper Egypt. Schemes are being worked out for the establishment of a giant fertiliser plant and for the exploitation of the iron deposits of the Aswan province. The transmission of current north-wards will facilitate the industrialization of Upper Egypt especially if, in the earlier stages, power is sold below cost, river transport is improved

(5) The pottery industry of Kooh grew near the deposits of rich alluvial sediments. The bulky and highly perishable goods are transported northward by sailing vessels.

and some reduction in railway charges is granted as a part of a conscious policy to bring in industries to relieve over-population and the dire distress of the countryside.(1) The recent extension of the Red Sea oil fields may provide other districts with motive power and help develop Suez as a large refining centre, especially if Egypt became the Terminus of the Arabian pipe-lines. Finally, a shift in the sources of supply of raw materials may exert some influence on location. Thus if the agitation conducted by industrialists to secure the repeal of the existing embargo on the import of foreign cotton is successful, it might lead to the location of new plants nearer to the ports.

It might not be amiss to round up this chapter with a few words about the social aspects of the problem of location. From the point of view of the entrepreneur it is important mainly through its bearing on costs. But there is a wider social aspect owing to the possible conflict between the interests of the entrepreneur and those of society at large, a conflict which has been stressed by some "welfare" economists, who contend that the calculus of private enterprise does not fully embrace those effects of business decisions which involve the state in substantial costs or which cannot be easily brought within the "measuring rod of money".(2) They point out to overcrowding in slums, the congestion of transport, excessive smoke and water pollution, the dangers of exposure to aerial bombardment and the risks of secular changes in demand resulting in chronic unemployment and depressed areas, as among the effects of excessive concentration of industry. The fact that the national Exchequer and local authorities bear part of the social cost of industry is advanced as a justification for the creation of a governmental body to be entrusted with the task of licensing new factories and of effecting some measure of dispersal of the industrial population.

In Egypt, industry is still in its infancy and there is no legislation dealing with the location of industry, except for the Law of 1904 which prohibits the establishment of obnoxious or noisy trades in close proximity to urban centres. Yet the recent industrialization of towns has brought the related problems of slums and over-crowding into the

(1) Owing to the high cost of transmission it may be decided to utilize most of the generated current on the spot unless other considerations, such as the betterment of rural life, are taken into account.

(2) In other words, social costs are higher than marginal private costs.

limelight, owing to the fact that the purchasing power of industrial workers is not of a magnitude to persuade speculative builders to provide workers' tenements at reasonable rents. Hence, it is submitted, one avenue of government intervention should be the subsidization of house building for the working classes.(1) The task of slum clearance and new building should be easier now that industry and trade are for the first time, contributing a fair share in the finance of the state.

Another line of policy would be to encourage location outside the big cities, despite the fact that certain economies emerge from the existence side by side of heterogenous industries in the great urban centres, thereby reducing the risk of protracted unemployment in the event of a secular decline of a particular industry. Such risk is certainly more pronounced in the "one company" towns like Mahalla, Kafr El Dawar, Beida or the sugar centres of Upper Egypt than it is in Cairo and Alexandria where displaced non-specific labour can easily find alternative employment. (2) Nevertheless, the State can influence location in rural districts by appropriate measures designed for the purpose such as freight reductions, fiscal policy, advances from the proposed Industrial Bank and the establishment of non-profit making trading estates with sites and factories, houses, canteens and recreational grounds. The latter would constitute an important measure of rural reform bringing alternative outlets of employment to the down-trodden peasants. They would enable entrepreneurs to start in business without a large capital outlay in building. A start should be made somewhere north of the Delta and in the Assuan province to take advantage of cheap supplies of electricity in establishing new industries.

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(1) In the thirties an attempt to provide Cairo workers with state built tenements was not successful. The few houses built were leased to junior civil servants in the lower-income brackets.

(2) This problem has recently arisen at Shoubra el Kheima, where a large number of mushroom companies catering mainly for the Allied Armies were closed down after the evacuation of foreign troops with the result that unemployment increased and riots became frequent. It may be remarked that the absence of unemployment insurance increases the mobility of workers who, under the stress of hunger, are forced to find new openings or migrate.

CHAPTER VII

The Analysis of Egyptian Industry

(1) *The Size of Industrial Units*

The Industrial Censuses of 1927 and 1937, and the limited survey undertaken in 1942 give some idea of the magnitude and composition of Egyptian industry. In conjunction with the decimal population censuses they throw some light on the occupational distribution of the population, and indicate the structural changes that have taken place in recent decades. The present chapter will be concerned with the size of industrial units and the extent of vertical integration in Egyptian industry. Unfortunately, the censuses of industrial establishments do not sub-divide industries, according to the number of workers engaged, beyond the group employing 5–9 workers. The remainder is lumped under the heading 10 workers and above. In the absence of more detailed statistics census figures have been used, and further evidence throwing some light on the size of industrial units is provided by the figures relating to capital, sales, consumption of raw materials and motive-power used. The present work is mainly concerned with the study of modern industry, and the problems of small scale industry are only occasionally touched upon.

The first salient fact which emerges from a study of census figures is the numerical preponderance of small scale industries and crafts. According to the 1937 census of industrial establishments, 60 % of all "Factories and Workshops" fall in the following categories which belong to the small scale non-mechanized group; mens' tailoring (18.6 %), hairdressing and beautifying (13.2 %), boot making and repairing (10.2%), joinery (4.5%), tinsmithing (2.8%), cabinet-making and manufacture of furniture (2.4%), making of bread (2.3%), manual carpentry (2%), upholstering etc. (1.6%), dry-cleaning (1.5 %), jewellery and goldsmithing (1.4 %). The smallness of the size of the "firm" in some of these groups may be illustrated by the fact that, in the first, only 100 out of 17,084 firms employed 10 or more workers; and in the third, only 127 out of 9,430 establishments employed 10 or more workers. Moreover, the two groups, mens, tailoring and hairdressing, accounted for 44 % of the number of establishments but employed only 13 % of the workers.

Other indices relating to employment, capital investment and motive power also demonstrate the overwhelming numerical importance of very small establishments. Thus, in 1937, 52 % of all establishments employed no labour other than that of the proprietor ; another 40% employed between 1-4 and only 8 % employed more than 5 workers. The average number of workers for all establishments was 3 in 1937 (1). As may be expected, about a third of all establishments were engaged in repair work only ; moreover, 93 % of establishments did not use, or did not indicate, any motive power at all, while only 823, or less than 1%, had an installed capacity of 50 h.p. or over. Finally, of the 67,769 firms which indicated the amount of capital invested in the undertaking 86 % had a capital of less than L.E. 100 and only 0.5 % had a capital of L.E. 10,000 or over. (2)

The second salient feature is the high degree of concentration obtaining in the mechanized large scale sector of Egyptian industry. Thus, of the declared capital of industrial concerns amounting to L.E. 31,382,658 in 1937, 94 % (i.e. L.E. 29,477,632) was accounted for by the 2,828 firms with a capital of 500 L.E. and above. (3) Whereas, the 312 concerns with a capital of L.E. 10,000 or more had an aggregate capital of L.E. 25,862,363 (90%) the 49,355 firms in the group (L.E. 1-49) had a total capital of L.E. 355,740. When the accounts of joint stock companies are examined the extent of concentration revealed becomes even more startling. In 1941, the total assets of the 91 companies in the manufacturing field — excluding mining, transport and water-distribution — amounted to approximately L.E. 30 million(4) while the 15 companies, with a capital exceeding L.E. 500,000 accounted for approximately 65 % of total assets.

(1) The figure was very low in the group " Jewellery and precious articles " 0.9, in the manufacture of clothing 1.1 and in hairdressing 0.5. On the other hand the average number of workers per establishment was high in the following groups : tobacco (133.5) paper (26.8), printing (31.6), saltpan (456), Quarries (88) and Mines (141).

(2) 72 per cent of all establishments with a declared capital were in the capital bracket (L.E. 1-49).

(3) 75 per cent of total capital was invested in the following 8 groups : tobacco (23 %), textile (9.4 %) production and distribution of power and water (10 %), vegetable foods (8.2 %) means of transport (9 %) materials of construction (5%) drinks (4.1 %), printing, (6.2 %). It must be remarked however that owing to the existance of holding and subsidiary companies in the Tobacco industry the amount of capital invested is misleadingly high.

(4) No attempt has been made to eliminate inter-company investments and debts or " fictitious assets ".

Table I summarizes the relevant material for judging the evolution of the industrial structure since 1927. It reveals (i) an increase in the number of low-grade establishments, which employ no labour other than that of the proprietor, a fact which denotes an increase in service or neighbourhood industry (ii) a gradual reduction in the average number of workers per establishment for industry as a whole accompanied by a steady rise in the average for workshops employing 10 or more workers (iii) a noticeable decline in the absolute number and relative importance of the group employing from 5–9 workers; between 1927 and 1937 the number of firms falling within this group fell from 5,352 to 5,010 (iv) a steady decline in the number of establishments employing 5 or more workers from 8,005 in 1927 to 7,378 in 1942 and a steady increase in the percentage of workers employed therein. (1)

It is not easy to say how far the impact of mechanization contributed to the decline of small scale industry, i.e., the latter is taken to mean workshops employing 5–9 workers. There were certainly contributing factors, such as the general decline of purchasing power following the disastrous fall of cotton prices, and the drastic slowing down of the building boom. However that may be, the fact remains that between the population censuses of 1927 and 1937, the number of people engaged in "transformation industry" and "construction and building" fell from 607,953 to 538,905 (see Table II). Employment in a number of new industries, e.g., cotton spinning and weaving has expanded, but, on the whole, the creation of new industries and the mechanization of existing ones did not create additional employment to offset the decline in the more labour-intensive sector of crafts and home industry (Table III). When we turn from industry in general to the consideration of particular industries we notice that the introduction of large scale mechanized industry resulted in a high measure of concentration and the growth of a few firms or the formation of mergers or holding companies. These firms account for most of the output and attain a size sometimes far exceeding the mode in industrially more advanced countries.

(1) Between 1927 and 1937 the number of cotton-spinning and weaving undertaking employing 5 or more workers fell from 204 to 125. Yet most of the large increase in employment from 14,738 to 23,707 occurred in the very large firms.

TABLE I.—EMPLOYMENT AND SIZE OF THE FIRMS IN EGYPTIAN INDUSTRY, 1927-1942.

Year	Number of Establishments	Not employing Staff	Per cent	Employing 1-4 workers	Per cent	Employing 5-9 workers	Per cent	Employing 10 workers and above.	Per cent	Total number employed	Number of workers per establishment.	Per cent of workers in establishments employing 5 or More workers.	Average No. of workers in establishments with 5 or more workers.
1927 ...	70,314	27,448	39	34,861	49	5,352	8	2,653	4	215,438	3.1	60	16
1937 ...	92,021	48,285	52	36,039	40	5,010	5	2,687	3	273,467	3	67	24
1942 ...	103,259	50,709	49	45,172	44	(*)7,378	7	(*)	(*)	284,584	2.8	72	28

Sources: Compiled from the Industrial Censuses.

(*) The 1942 figure lumps together all establishments employing 5 workers and above. In 1942 these employed 264,055 workers. Whereas the figure relating to large scale concerns may be fairly accurate, those pertaining to small concerns are not very reliable.

TABLE II.—OCCUPATIONAL DISTRIBUTION OF THE POPULATION

Year	Population 000	Primary (1) occupations 000	Per cent	Secondary (2) occupations 000	Per cent	Tertiary (3) occupations	Per cent	Total occupied population	Unoccupied population
1927	14,216	3,626	67	618	12	1,107	21	5,251	8,967 (4)
1937	15,263	4,308	71	610	10	1,177	19	6,095	9,838

Source: Based on the 1937 Census. No earlier comparison is possible owing to changes in classification.

(1) Agriculture and Fishing.

(2) Industry, building and mining—the figures for mining were 9,741 and 10,821 respectively.

(3) Transport, commerce and services, public and private, including the servis of persons.

(4) 2,107,000 were below 5 years of age and 1,051,000 were aged 60 and above.

TABLE III.—EXPANSION AND CONTRACTION IN CERTAIN INDUSTRIES, 1917-1927

Industry	1917	1927
Expanding Industries:		
Extraction of salt and soda	735	2,653
Grain milling	10,851	12,334
Chemical industry	1,067	1,888
Cabinet making and furniture manufacture	6,111	7,362
Printing and bookbinding	8,793	10,743
Cotton spinning and weaving	14,758	23,767
Silk working	5,447	6,386
Mens tailoring	44,072	49,472
Bootmaking and repairing	32,817	24,433
Electricity works	2,393	4,268
Preparation of metals	18,496	21,112
Boatmaking and construction of vehicles	10,516	15,944
Contracting Industries:		
Mining of metallic ores	2,152	803
Lentil crushing and rice beating	3,636	1,337
Manufacture of bread	18,430	15,697
Manufacture of tobacco	7,621	5,230
Manual carpentry	44,750	37,487
Wool spinning and weaving	14,249	11,304
Dyeing of fabrics	8,866	4,955
Womens dressmaking	22,908	18,439
Gasworks	1,745	371
Water distribution	20,302	16,387
Brickmaking	8,272	6,817
Gold and silver smithing	8,264	4,145
Stone masonry	58,869	49,785

Source: Compiled from the Population Census 1927.

The cotton industry is remarkable in that respect. In 1941, there were 9 mechanical spinning mills. Two had more than 100,000 spindles, two were within the range of 10 to 50,000 and five had less than 50,000.(1) Thus, most of the total spindleage was in mills having 100,000 spindles or more whereas, in 1935, only 24% of Japan's spindles fell in the same category.(2) of the total mechanical loom capacity estimated at 8,400/6,500 were owned by three companies, which between them consumed over 80% of all cotton consumed locally. Over 80% of the total output of yarn is accounted for by three concerns and over 50% of the cotton cloth produced came from the four leading companies.(3) In 1943, the five textile companies with a capital exceeding L.E.400,000 had a total capital of L.E. 3,180,000 while the remaining fifteen, with a capital ranging from L.E. 2,000 to 150,000, had a total capital of 767,500. Finally, it must be emphasized, here that the expansion of the cotton industry has not been the result of a simulatneous growth of all or most of the constituent firms, but rather of the phenomenal growth of a few firms controlled by powerful financial interests. The penury of funds stunned the growth of the remaining fairly small firms (See Table IV).

The sugar industry is entirely in the hands of a multi-plant firm which caters for the country as a whole and for exports. It has five crushing plants with annual capacity varying from 270,000 kantars of cane in Kom Ombo to 431,000 kantars in Abou Kurkas. Refining is, however, concentrated in a single plant with a daily capacity of 700 tons. Of the bye-products of sugar alcohol is distilled by one firm which supplies the local market, while the production of molasses is undertaken by a large number of very small firms. The country's requirements of cement are met by two companies working on a very large scale. In most other industries, it is usual to find a number of small concerns side by side with a few large and modern ones. In soap making, paper and milling the few modern factories account for most of the production while in the boot and shoe industry the preference of the bourgeoisie for the bespoke product favours the small firm. The chemical industry consists of small firms, as in its early

(1) A. Eman, *op. cit.*, p. 75.

(2) G. C. Allen, *Japanese Industry*, p. 31.

(3) In weaving, the handloom sheds still hold on. Protection against Japanese competition and the cessation of imports during the recent war gave them a new lease of life.

stages the organization must be flexible until the expansion of demand permits standardization and large scale production. Finally, the new rayon industry has hitherto been in the hands of small firms; thus in 1937 there were two firms having about 400 looms each and about 32 with between 5 and 50 looms. But a new giant plant is being built by a group of Egyptian and American capitalists, which will certainly overshadow the rest. It is not possible, without adequate knowledge of the technique of production in the various industries, and without adequate statistical data, to pronounce on the technical efficiency of Egyptian industry or to compare the size of existing units with the "optimum" size. However, the following reflections are pertinent to any enquiry into the special circumstances of Egypt.

TABLE IV.—THE DEVELOPMENT OF THE TWO LARGE TEXTILE COMPANIES

Year	Spindles	Workers	Consumption of Cotton-Kantars	Looms	Capital
					L.E.
(a) *Filature Nationale d'Egypte*					
1917 ...	20,000	800	—	500	48,750
1931 ...	60,000	1,400	60,000	800	320,000
1935 ...	75,000	3,200	99,000	850	487,500
1940 ...	—	—	—	—	780,000
(b) *Société Misr pour la Filature et le Tissage*					
1931 ...	12,500	—	12,000	480	300,000
1937 ...	100,000	15,000	282,000	2,000	—
1946 ...	160,000	27,500	360,000	4,300	1,000,000

Sources: 1. Annual reports of the two companies.

2. Report of the Committee on Industry and Trade, 1917.

3. Various issues of the bulletin of the Ministry of Industry and Trade.

At first, it is necessary to dispel certain misconceptions concernin the relationship between size and efficiency and especially the tendency to exaggerate the technical advantages of scale and to confuse economies of scale with financial success based on the attainment of a position of leadership in the industry, by virtue of the fact that the firm's output and variations therein have a decisive effect on the ruling price or because a large outlay on advertising has created consumers insistence for the firm's products. In such cases it is not inconceivable that monopoly gains may more than outweigh any diseconomies of scale. The real economies of large scale production are the result of certain indivisibilities in the supply of factors of production. For instance, in cement manufacturing the unit cost is lower for large as compared with small units, and technical efficiency increases with the increase in the size of rotary kilns.(1) Costly and specialized equipment are also required for the attainment of efficiency in petroleum refining, textile finishing, and steam power generation. Moreover, finance is more readily available to large than to small firms, owing to the absence of special financial agencies catering for the needs of small scale enterprise; in addition, the cost per unit of capital raised in the capital market falls as the amount of the issue increases. (2) Finally, the large firm enjoys certain economies associated with bulk merchandising and the employment of specialists including research workers.

It is notorious that the economies of scale are more conspicuous in the production of pig iron, assembling motor cars and certain branches of the engineering industry. On the other hand, there are no considerable economies of scale in the textile industry, except in finishing. In cotton spinning and weaving, the optimum technical unit is small and expansion within the firm means the multiplication of machines of the existing type, without any appreciable internal economies. Cotton being a graded commodity with an international price, bulk buying does not give a marked advantage to the large firm. Moreover, in the special circumstances of Egypt, the mills buy low grade and inferior varieties of cotton from the scattered markets; and any economies in bulk buying must be set against increased transport costs and a costly system of agency. Nevertheless, we find that Egyptian firms have grown very rapidly and have attained sizes far

(1) Dobbie and Fraser, Analyzing Our Industries, p. 232.
(2) J. Steindl, Small and Big Business, p. 19.

above those of the average firms in Great Britain or the U.S.A. not so much by installing larger machinery but through sheer multiplication of existing ones. Thus, the average New England mill of the type having combined spinning and weaving mills has 30,000 spindles and 700 looms. In the U.S.A., the cotton industry is among the least concentrated of the nation's important industries, and in 1935, the four largest firms produced only 8.4 per cent of the industry's value of product.(1) For the greater part of its career, the Lancashire Cotton industry was characterized by the prevalence of smaller medium sized firms. In 1884 "the undertakings owning 30,000 spindles or less accounted for over half the total, and very few undertakings owned over 80,000 spindles."(2)

It would seem that any planned development of industry in Egypt should take account of the relative scarcities of capital and labour. The scarcity of capital in Egypt favours the establishment of small scale labour-intensive industries wherever the shape of the production function permits. Small scale decentralized industries would then supersede the decaying crafts of the village and avoid excessive urbanization.(3) However, in the past, the smallness of the number of entrepreneurs with access to large investible funds has been the most important single factor in determining the number and size of modern industrial units in Egypt. The techniques and the combinations of factors of production introduced by some enterpreneurs have been copied from the industrially advanced countries without due regard to the constellation of fact or prices ruling in the country. For instance, the old labour intensive method of producing cement used by the Maasarah Company before 1929 was superseded by the more capital intensive techniques of the new concern which absorbed and closed down the Maasarah firm, and in whose capital foreign cement equipment manufacturers were heavily interested. The same development occurred in grain-milling and rice-beating. On the other hand very little is being done to supply small producers with capital equipment or motive power to increase their efficiency despite the fact that the reports of technical experts show that the productivity of these firms

(1) Temporary National Economic Council, Technology in Our Time, p. 276. Compare with Egyptian figures given earlier.

(2) Committee on Industry and Trade, Survey of the Textile Industries, p. 28. See also G. C. ALLEN, British Industries and Their Organization, passim. The picture was substantially altered later, and in 1921 less than one-third of the total owned 30,000 spindles or less, and over one-third of the total owned 80,000 or more.

(3) League of Nations, Industrialisation and Foreign Trade, p. 30.

would be appreciably enhanced by a moderate use of simple equipment. In Japan, small scale enterprise has managed to survive rapid industrialization and in 1930, about 50 per cent of the industrial population was engaged in workshops employing less than workers (1).

The fact that the small entrepreneur finds it very difficult to raise additional funds is the main obstacle in the way of the simultaneous growth of industrial firms, while the smallness of the number of entrepreneurs with command of large investible funds accounts for the growth of large scale enterprise, and for intensive rather than extensive development. The ease of securing additional capital for large firms and the possibility of self-financing through reinvestment of profits tend to enlarge the financial optimum ; the position could be remedied if, as is suggested elsewhere, a special financial institution is established to extend assistance to small and medium sized firms.

Finally, it is submitted that the dearth of entrepreneurs of a high calibre constitutes a grave handicap to the management of giant concerns. The number of specialists in the technique of business administration, scientific management, statistics, advanced accounting and costing, personnel administration, etc., is very small indeed, and this enhances the difficulties of control and co-ordination in the large enterprise and in many firms, the inadequate devolution of responsibility and authority burdens the heads. In the language of Mr. Robinson one would say that the managerial optimum is so small that technical economies of scale may be somewhat sacrificed to enable managements to get a firm grip on the enterprises they control especially at the early stages of development when flexibility is mostly needed. (2) However, as things are, the balance of advantages lies with the large concerns, and this situation is likely to continue unless governmental action, especially in the field of finance, succeeds in eliminating some of the handicaps under which small scale enterprise is labouring. This is very important for the future development of industry, as the facilities for foreign borrowing will be somewhat restricted in the near future, while it would be too optimistic to hope for an early release of sterling balances for initiating a huge programme of capital investment.

(2) *Vertical Integration.*

The modern, large scale sector of Egyptian industry is characterized by a high degree of vertical and lateral integration. This has sometimes

(1) G. C. Allen, *op. cit.*, p. 28.
(2) E. A. G. Robinson, The Structure of Competitive Industry.

come about through a firm integrating backward to produce some of the materials it requires. In other instances, firms have integrated forward by branching into those processes of production subsequent to the stage at which they had hitherto confined their operations. Moreover, there are many instances of large firms or groups of firms undertaking the wholesaling or retailing functions instead of leaving them to intermediaries. Integration has been undertaken within a single plant, or through the formation of subsidiary companies; or it has been the outcome of merger between two or more complementary concerns. There is, in some firms, a high degree of lateral integration resulting in a bewildering variety of products, a vast range of subsidiary activities and the operation of a very complex body of machinery and appliances.

In the sugar industry, the present integrated structure is the outcome of amalgamation. Prior to 1897, the refinery was an independent undertaking, and even now the two processes of refining and crushing are carried out in different localities. As in early 19th century England, the cotton textile industry is highly integrated and most of the output comes from concerns combining spinning and weaving. The two large mills also undertake dyeing, bleaching and printing. While the range of the Filature Nationale is more limited, that of Misr Spinning is very wide. In 1946 it produced 89 million yards of plain cotton cloth, 5 million kilos of bleached and 1.4 million kilos of dyed cotton cloth, 10.4 million yards of woolen cloth, 1.4 million yards of linen cloth, 23 million yards of printed cloth, 50,000 dozen pairs of socks, 50,000 sets of underwear and 300,000 kilos of antiseptic cotton.

The large measure of integration obtaining in Egyptian industry is mainly traceable to the fact that the new industries did not take sufficient time to develop, so that division of labour among a large number of entrepreneurs would emerge. Some were established full-fledged, and large firms were forced to undertake most of the successive processes of production owing to the absence of adequate facilities for buying in their requirements. Some firms had to establish their own foundries and repair-shops and to produce on the spot some of their spare-parts and equipment. (*) This led to excessive investment in fixed capital and to the emergence of certain discontinuities owing to the difference in the optimum size of the plant required for the economic operation

(*) The dearth of transport facilities forced the sugar company to build its own narrow gauge railway and to own its river fleet.

of successive stages. The existence of these discontinuities was, in itself, a reason for the emergence of lateral integration owing to the desire to utilize existing excess capacity.

Another reason for the growth of integration is the desire of entrepreneurs to invest surplus profits and the relative ease with which the few large established concerns could raise funds in the capital market for investment projects. Much lateral expansion is due to the desire to find outlets for surplus profits especially during the two wars, when industrial concerns were realizing large profits, while the usual sources of supply of raw materials and component parts were cut off. Further expansion in the production of existing lines was sometimes precluded owing to the smallness of the market ; and the firms thought it advisable to add new lines thus diversifying production.

The desire to ensure an adequate and stable source of raw materials was another cause of vertical integration. Thus, the changing relationship between the prices of cotton and sugar-cane in the last decades of the 19th century, caused sudden fluctuations in the amount of cane presented to the sugar mills. When cotton was introduced in certain areas of central Egypt the company had difficulties in securing enough cane for the crushing plants and it decided to produce part of its requirements of sugar cane. In recent years the company has been relieved of the necessity of further expansion in this direction by the downward course of cotton prices, and by the practice of entering into long term contracts with producers. Other examples are afforded by the leading wine company which cultivates 5,000 acres on the border of the desert in Behera, and by the Misr Linen Co., which produces flax and supplies the cultivators with seeds and fertilizers.

Other causes have also been at work. The desire to find outlets for part of the product led cement companies to manufacture flooring tubes and other concrete products. Some companies introduced new lines or new processes to utilize by-products or surplus electricity, (1) to avoid the transport of bulky containers, (2) to guarantee the quality of materials used or to avoid exploitation by suppliers. (3) Again the desire to find and control retail outlets is prominent, especially

(1) The Misr Fishing Company manufactures buttons, an Electricity Supply company manufactures bells.

(2) Oil companies manufacture cans from imported sheets; cigarette and candy companies manufacture their own boxes.

(3) Most factories produce their own electricity.

that some Egyptian manufacturers were under the impression that the large wholesalers, being heavily interested in the import trade, were not favourably disposed to local products. (1)

It is not easy to discover economies of vertical integration in the cotton or sugar industries. It is commonplace that the integration of spinning and weaving does not yield appreciable technical economies. Moreover, it cannot be claimed that integration leads to a more balanced working of the constituent concerns, as there is no evidence of self-sufficiency in Egyptian integrated concerns. The Misr Cotton Spinning and Weaving Company sells half its yarn production in the open market and the Sugar Refinery imports large quantities of raw sugar to supplement local production. On the other hand, integration does not permit the specialization of processes and the economies of concentration on a narrow range of processes or lines. (2) Excessive integration in Egyptian industry raises difficult problems of coordination, and leads to complexity of structure and the assumption of added risks, with which present managements are hardly in a position to cope.

In the light of the above analysis, any tendency towards the simplification of structure or the dissociation of processes with a view to attaining a higher degree of specialization is to be welcomed. A recent example of such a tendency, obviously modelled on the English pattern, is the establishment of two separate companies in different but adjacent localities, one for the spinning and weaving of fine yarn and the other specializing in finishing. The further expansion of the textile industry would have been facilitated by the existence of such separate finishing firm, which could serve many producers had it not been debarred by its articles of association from serving any but the two Misr concerns. Other instances of simplification of structure are afforded by the Cairo Water company which has recently ceded its ice manufacturing plant to a new concern, and by the Misr Navigation Company which has recently sold its hotels in Suez and Mecca. In future, such instances might be multiplied as the course of industrial history shows that vertical integration is usually associated with the early stages of industrialization.

(1) The Bank Misr created department stores for the sale of Egyptian goods; it also built a picture house for exhibiting Egyptian films.

(2) Technical Influences on Vertical Integration, F. Lavington, Economica 1927. See also S. E. Dimmock, Vertical Integration and the Iron and Steel Industry, Economic Journal, 1932.

CHAPTER VIII

Monopoly in Egyptian Industry

(1) *The Extent of Monopoly*

Competitive conditions prevail in a number of Egyptian industries such as leather, soap, furniture making and certain branches of the textile trades where dispersed and small-sized plants are the rule. On the other hand, what there is of large scale mechanized industry is highly monopolistic and all forms of monopoly organization known to the capitalist world are represented. There are numerous examples of selling agreements, quota and price fixing agreements and agreements establishing joint selling organizations. In a number of industries a few firms grew to dominate the market towering above the others in size and financial strength. In others amalgamation and absorption have resulted in the gradual decline of competition, while yet in others holding companies were formed to put under unified control a number of hitherto competing concerns. In the sugar industry one company is left alone in the field and its position is entrenched behind government support and high tariff barriers.

Various factors have led to the early trustification of large scale modern industry in Egypt. First, it developed at a time when competition was on the wane and its adherents were fighting a losing battle. Secondly, the dearth of capital militated against the multiplicity of firms in the same branch. The number of foreign promoters with command of large resources was small and they undertook the floatation of enterprises in unison. Thirdly, it was comparatively easy to arrive at an agreement between them as they lived mostly in Cairo and Alexandria and formed part of a closely knit commercial community with many opportunities of intercourse. When the Egyptian element entered the field it was mainly the Bank Misr who took the initiative in starting mechanized industry and its promoters evinced a mistaken admiration for very large scale enterprise. Fourthly, owing to its late development, the size of plant in industry was larger than say in Great Britain during the early days of industrialization and this undoubtedly facilitated the creation of monopolies. Finally, the introduction of protective tariffs in 1920, by reducing foreign competition, paved the way to the rise of monopoly in the sheltered industries. The following is a sketch of the development of monopoly in Egyptian industry.

The Cotton Industry (1)

(a) *Cotton ginning.*—The successive cotton booms of the 19th and early 20th centuries, coupled with the phenomenal increase in the area under cotton (2) led to over-investment in the ginning sector of the industry. Conditions remained highly competitive despite the amalgamation of some mills and the emergence of giant concerns. As early as 1905, the Associated Cotton Ginners and exporters was formed to bring under unified control the ginning mills belonging to Choremi, Salvago, Zevrulachi Plants, Carver, Bacos and the Société d'Egrenage de Zagazig. (3) Later on, Dumetriades and Sakellaridis were induced to join the new company, which embarked on a policy of "rationalization" entailing the closing down of many plants. The combine was not very successful owing to initial financial difficulties resulting from excessive watering of capital. Curtailment of competition proceeded further with the formation of large units, such as the Misr Ginning, the Upper Egypt Ginning Co. and the amalgamation (1943) between the Nile Ginning Co. and the firm of Anderson and Clayton. Moreover some of the larger units were able to lease a number of the smaller mills.

The process of concentration, however, did not go far enough to allow concerted action with a view to influencing prices. Attempts at cartellization were not very successful on a regional or national basis although there were some instances of "gentlemen's agreements" between local factories. Thus, in 1928, a formal agreement to stabilize rates was signed between the leading firms in Kafr El Zayat after a period of intense price-cutting. (4) There were many reasons for the failure of early attempts at formal agreement. In the first place, owing to the absence of indivisibilities and other technical factors small factories are abundant, and according to the 1938 "Annuaire

(1) This group embraces all industries connected with cotton and cotton seed.

(2) The area under cotton increased from 98,000 feddans in 1837 to 1,700,000 in 1911. A recent estimate of capital investment in the ginning industry puts the figure at L.E. 5 million.

(3) Peters, Carl, Die Volkswirtschaftliche Entwicklungstendenz in Egyptian, pp. 79-80. In 1911 the company had 659 active gins.

(4) Agreement here was rendered possible by the existence of a few large mills in close proximity. It was allogical sequence to the prevalence of conditions of Quasi Monopoly. It must be added that certain isolated mills had a natural monopoly within a certain radius owing to the cost of transporting raw cotton elsewhere.

statistique" there were 119 factories with 6,406 métiers (gins) of which 105 (5852 gins) were active during the season. Furthermore, while there are important centres such as Kafr El Zayat, Mehalla and Mansourah, a large degree of geographical dispersal obtains, which together with the multiplicity of the nationality of owners rendered negotiations difficult.

Secondly, the existence of small mills with antiquated equipment in dilapidated buildings side by side with large, up-to-date, plants was a stumbling block. The former, with very low overheads and little knowledge of the technique of cost accounts were prone to cut prices in times of depression to levels which the latter considered "uneconomical". (1) But the unequal size of units militated against attempts at price or Quota fixing, and it would have been costly to provide machinery for inspection, and enforcements of cartel agreements. In the third place, the competitive struggle was accentuated by the fact that important cotton dealers were in a favourable strategic position viz a viz mill-owners in certain districts, playing the one against the other and securing price concessions in exchange for a guarantee of minimum cotton supplies during the season. In their anxiety to reduce the uncertainty of operation, and in view of the low marginal cost and the existence of surplus capacity in the industry, mill-owners were all too willing to fall in with the wishes of cotton dealers. Finally, mention must be made of the pronounced fall in the price of cotton during the inter-war period, which resulted in a smaller margin for processing expenses, and of the decline in acreage decreed by the government in its spasmodic attempts at influencing the price of cotton.

However, certain progress was made in the late thirties. Under the aegis of the Federation of Egyptian Industries especially created Chamber of Ginning establishments, and, with the moral support of the government, negotiations were started in 1936 with the object of forming a cartel "to raise the rates charged and to put an end to the "deadly competition" reigning in the industry". Owing to the smaller number of competitors in Upper Egypt, a pool agreement was signed on May 14, 1937, and its success in the first year of operation

(1) This was especially true of the companies having a large and inflated capital structure. Mr. Eman in defending the new cartel writes "Les tarifs avilis d'égrenage de coton qui, avant la guerre, étaient parfois inférieurs dans certaines régions à P.T. 6 par cantar ne suffisent même pas à couvrir les frais généraux". L'Industrie du Coton en Egypte, p. 48.

induced the recalcitrant interests in Lower Egypt to follow suit; thus in 1938, a second regional arrangement was signed. Both agreements fix minimum rates for ginning and related services, and regulate the granting of deferred rebates, which would otherwise have been resorted to to defeat the convention. Members are assigned Quotas based on past performance and installed capacity. An interesting feature is the provision of a levy on cotton ginned by member-firms to be paid into a special fund for meeting administrative expenses, and for compensating firms operating in districts where non-members charge rates below those fixed by the cartel, or where other members fail to honour their pledges. Compensation is also payable to any member who fails to attain the quota assigned to him because cotton-growers and dealers in his area find it more advantageous to send their cotton to be ginned in non-member gineries situated elsewhere. The outbreak of war in the autumn of 1939 does not permit an appraisal of the effects of the cartel, but the rise in rates may have caused a reversal of the trend, observable before 1936, towards a decline in the number of gins in operation. This number, which had declined from 6,101 in 1933 to 5,778 in 1937 rose to 5,852 in 1938 and was 6,112 in 1940.

(b) *Cotton Pressing.*—In contra-distinction to ginning the pressing sector of the industry has always operated under monopolistic conditions thanks to the fewness of firms, their geographical concentration in Alexandria and the harmony between the foreign interests controlling them. The leading establishments in the industry, the Société Générale de Pressage (1) et de Dépôt is the product of a merger sponsored by the Ottoman and the Anglo-Egyptian Banks. As early as 1902, the company entered into a cartel agreement with its only rival with a view to ending a short rate war. The two concerns remained in undisputed control of the market until the huge profits realised during the boom of the early twenties induced some capitalists to enter the field. The establishment of two new companies precipitated competitive price bidding which was further aggravated by the fall in cotton prices and the limitation of its acreage. Although profits were still maintained at fantastic levels, ranging from 20 to

(1) In 1925 the Société Générale de Pressage bought outright the Egyptian Pressing Co. in which it had a controlling interest amounting to 7/8 of share capital.

100 % the controlling interests decided to enter into an agreement for the stabilization of rates and the apportionment of Quotas. The signatories formally undertook not to underbid each other and to stop operation once their quota had been exhausted. There is evidence to show that quotas are periodically altered in the light of changes in installed capacity. (1) The agreement signed in 1926, also regulates the granting of deferred rebates to important clients lest they may be resorted to to evade the provisions relating to uniformity of rates.

(c) *Cotton Spinning and Weaving.*—In this industry a small number of companies has attained such a degree of supremacy that they constitute an oligopoly. The growth of the industry has meant the rapid growth of these firms which came to dominate the scene. Thus, in 1941, it was estimated that the three leading firms in the spinning branch accounted for over 80 % of the total output of yarn. The degree of concentration in the weaving section is less marked, the four weaving companies, being responsible for approximately 50 % of local production. It is obvious that price leadership by the giant firms would have been possible even in the absence of other monopolistic devices. However, these have come to re-inforce the strong position of the producers especially after the imposition of high tariff barriers to "stem the tide" of British, Japanese and Italian competition. There are instances of price fixing agreements, joint selling agencies, inter-locking directorates, holding companies and exchange of shares.

In 1934 the two leading cotton spinning and weaving firms established a selling organization "Comptoir pour la vente des filés Egyptiens" for the sale, in the local market, of their surplus production of yarn. Later on, certain standardized cotton goods, such as Zephir, drill and foulard were added. A similar joint selling agency was established for the sale of products of the Kafr El Dawar and Beida Mills. The Filature Nationale d'Égypte owns 50 % of the capital of Société Egyptienne des Industries Textiles. It also owns 50 % of the capital of the Société Egyptienne de l'industrie de Bonneterie, its holding in the two companies, amounting in 1943 to L.E. 300,000, yielded L.E. 41,741 in profits. The Company also has an interest in the Société Egyptienne de l'Industrie de tissus éponge.

(1) Thus the share of the Société Anonyme de Nettoyage et de pressage decreased from 6·9 per cent in 1941-1942 to 5 per cent in 1942-1943. The share of the Société Générale fell from 80 per cent in 1924 to 54 per cent in 1939-1940.

An interesting instance of exchange of share is afforded by the so-called working agreement between the Bank Misr and the British combine, Bradford Dyers Association, which led to the creation of two complementary companies, the Société Misr pour la filature et le tissage fin for the weaving of fine cotton and Beida Dyers for finishing. In both companies the sponsors are the main shareholders. Thus the Bank Misr acquired 12,500 ordinary shares (out of a total of 62,500 shares) in Beida Dyers, while the Bradford Dyers Association held 51 % of the share capital. On the other hand Beida Dyers owns 17,500 shares in the Kafr El Dawar Mills. Moreover in 1940 the Mehalla Mills, a subsidiary of the Bank Misr, held 15,000 shares in the Kafr El Dawar Mills. The agreement allows specialization between the spinning and weaving of coarse counts (Mehalla) that of finer counts (Kafr El Dawar) and the finishing processes (Beida). A novel feature of the agreement is the exclusive dealing clause whereby the important finishing concern at Beida will work solely for the two Misr Mills. This may have the effect of impeding the development of new concerns, as they would be forced to integrate the finishing processes with manufacturing proper failing access to existing finishing facilities.

Building Materials

(a) *Cement.*—In the early twenties there was only one important firm producing portland cement, the Société Anonyme des ciments d'Egypte and a small factory in Alexandria working with materials imported from Esplato on the Dalmatian coast. However, with the certainty of an impending tariff revision, foreign capital, Danish, Belgian and Swiss came to be invested in ultra-modern plants in the vicinity of Cairo. The construction of two new large concerns, resulting in a much enhanced capacity, co-incided with the advent of depression and the curtailment of the programme of public works in deference to the tenets of financial orthodoxy, and severe competitive bidding by the firms depressed prices. Working at below capacity the firms resorted to such devices of non-price competition as the granting of extended credit to prospective buyers. As is well known, cement production is a highly mechanized (1) industry and marginal costs,

(1) In 1937 less than 1,000 workers were employed in the cement factories of Egypt.

in the short run, are very much below average costs ; hence the dangers of intense price cutting are very real, especially that cement, a homogeneous product is manufactured by a small number of large firms (oligopoly). Moreover, the difficulties of the industry were aggravated by the fall in the C.I.F. price of imported cement to approximately half the level of 1928 (1) owing to "sporadic dumping" by the factories of the Adriatic, aided by rebates from the Lloyd Triestino steam navigation company.

In 1929 feelers were sent for the formation of a cartel, and in March 1930 the two Belgian Companies of Tourah and Maasarah signed an agreement setting up a joint selling agency entitled "Comptoir de Ciment". The agreement also provided for the apportionment of production quotas on the basis of capacity. After protracted negotiations the Helwan Company adhered to the price fixing agreement which proved to be short-lived and competition was resumed. In the meantime, the Tourah firm had absorbed that of Maasarah, increasing its capital for that purposes from L.E. 400,000 to L.E. 565,000. The latter company was liquidated and its factory closed down. The pressure of renewed competition, and the imposition of higher tariff and excise duties hastened the formation of a new cartel (March 1931), (2) and the inclusion of the Helwan Co. in the Comptoir de ciment. The latter is a joint stock company managed by three directors, two from Tourah and one from Helwan. Sales are divided in proportion to production capacity and The Comptoir maintains warehouses and sales-offices in both Cairo and Alexandria.

Since its inception, the cartel, in conjunction with the tariff, has resulted in the complete stifling of competition. Thus, production increased gradually from 228,209 tons in 1933 to 334,775 tons in 1936, and finally reached 420,000 tons in 1940. At the same time, imports declined from 250,924 tons in 1928 to 80,000 tons in 1933. Before the last war only high grade cement, in insignificant quantities, was imported. The continued success of the cartel is due, in a large measure, to the fact that there are only two large concerns (3) and to the virtual

(1) In 1928, prices fluctuated between P.T. 280 and 300. In 1930 the price was P.T. 160 per ton.

(2) The building of the so-called treaty roads gave a fillip to cement production. Large orders for roads, aerodromes and fortifications during the war brought huge profits to the two companies.

(3) The disparity between the capital of the two companies is not large (Helwan L.E. 561,000 and Tourah L.E. 565,000) and may have been a contributory factor to the success of the cartel.

disappearance of foreign supplies. It resulted in the unification of the selling function in the hands of the Comptoir, and succeeded in securing the acceptance of Egyptian cement in all government adjudications in the Nile Valley. By joint advertising, it is creating new demand for its products and, under its auspices, a factory was constructed at Kafr Elo for the manufacture of cement bags. In conjunction with the Bank Misr, Misr Concrete S.A.E. was formed to manufacture building materials and other cement products. But it is certain that the main objectives of the cartel were to influence prices and to increase profits. Thus prices in Cairo rose from 140 P.T. in 1930, to 250 P.T. after the signature of the cartel. (1) The rate of dividend distributed by the Helwan Co. rose from 5 per cent in 1932 to over 10 per cent in 1938–1939; that of Tourah rose from 6 per cent in 1932 to 18 per cent in 1939. (2)

(b) *Other Building Materials.*—Other instances of sales agreements in this industry may be cited: Since 1934, the two leading sand-brick companies of Cairo and Marx have had a working agreement. In the summer of 1939 the Platrières de Bellah, the Société de Plâtres d'Albâtre, the Sphinx Plaster Co., and Trade and Industrial Company entered into a sales agreement. The first company (3) holds a prominent place in the industry in view of the fact that it supplies more than 90 per cent of local consumption of plaster. Foreign competition in this bulky commodity is excluded by high tariff duties (amounting to 25 P.T. per ton).

Food, Drink, Tobacco

Towards the turn of the twentieth century, Egypt had a flourishing cigarette industry based entirely on imported tobacco. It did a large export business to Europe and the Near East. But the popularity of Egyptian brands on the European markets declined steadily especially

(1) Prices in Alexandria were slightly lower; by freight absorption the Comptoir was able to compete with imported cement in Alexandria, a case of geographical price discrimination.

(2) "The rate of profit earned by a monopoly is no final index to whether prices are high. The rate may be low not because the prices are low, but only because capital values have been inflated, or because the industry is inefficient, or because technical progress is not fully exploited". W. A. Lewis, Monopoly in British Industry.

(3) In 1939, this company absorbed a competing concern cited in Cairo and converted the plant to the manufacture of material for hardening floor tiles.

after the erection of tariff barriers in Germany and France. In the last few decades, a gradual process of concentration has changed the predominantly competitive character of the industry. Thus, the Salonica Co. has absorbed the firms of Simon Arzt, Papadopoulos, Ismalan, Pecaris, Mandjaros, Bartolo and Livaros. In 1927, further monopolistic attempts were made to bring about the unification of the leading concerns while preserving their names with the goodwill attached to them. For that purpose, a holding company was formed under the auspices of the Anglo American Tobacco Co. Ltd. and the Egyptian cigarette magnate Matossian. The New Company, The Eastern Co., acquired the interests in six companies previously held by the notorious Anglo-American Combine and proceeded to acquire others until in 1943 investments in subsidiary companies amounted to L.E. 2,728,257 (1), including the estimated value of goodwill and trade marks of the subsidiaries "as valued by the directors". The capital of the Company which was raised to L.E. 5 million in 1927 to effect the purchase of shares, had to be reduced in 1937 to L.E. 2 million.

The process of concentration in the beer industry goes back to 1939. In that year took place the amalgamation of the two large breweries of Cairo, Pyramides and Bomonti. More recently the Crown Brewery of Alexandria and the Société Anonyme des Bières Bomonti et Pyramides have signed a selling agreement. As a result of their co-operation, a factory for converting local barley into malt has been established to supply their needs.

In the ice industry, local cartels in Cairo and Alexandria have not been very successful, and the repeated attempts were defeated through the intrusion of small "interlopers" and wide-spread evasion. In 1929 an attempt to impose resale price maintenance on the multitudinous street corner vendors of Cairo (2) was doomed to frustration. In 1930 the Alexandria producers finally succeeded in establishing an efficient organization, with quotas varying with the rate of consumption, and a central selling agency. When in 1931 remunerative prices caused

(1) The Eastern Co. has a controlling interest in the well-known firms Maspero, Sevoss, Papathedgou, Apelian, Gazzaragan, Mavrides, Matossian, Moreséon and Athena.

(2) In summer these vendors exploit their monopolistic power; their case is an illustration of the exploitation of fairly rich buyers by impecunious monopolists, with favourable effects on the inequality of wealth. It should be added, however, that they are always targets for the wrath of newspapers and local authorities.

a new factory to be established and the owner proved recalcitrant and refused to adhere to the prices fixed by the union, the latter proceeded to cut prices and eventually succeeded in enlisting the newcomer.

The extraction of salt remained for long a government monopoly. Towards the end of the last century the monopoly was farmed out to two concessionaire companies and when the agitation for the repeal of the salt monopoly achieved its object, a price war developed. The instability associated with duopoly led, in 1907, to the establishment of a joint selling organization between the Egyptian Salt and Soda Co. and the Port Said Salt Association. The selling agency, United Egyptian Salt, is a joint stock company with 300,000 shares of 1/- each of which the Egyptian Salt and Soda Co. holds approximately 70 per cent. The latter is an important holding company and owns 16,000 shares out of a total of 45,000 L.E. 4 shares in the Société Financière et Industrielle de l'Egypte. It is also the leading producer of edible (seed) oil and, in 1932, was at the head of a cartel regulating prices and fixing quotas for the production of that commodity.

The process of concentration in the sugar industry started in the eighties and nineties of the nineteenth century and was complete by 1905. In 1870, the Dairah Sanieh owned and operated 17 factories scattered all over Upper Egypt and the refining was done in Marseilles until 1881 when a group of local capitalists founded a refinery near Cairo. In 1897 the two large concerns in existence, the Sucrerie Générale de la Haute-Egypte and the Société des Sucreries — Raffineries de l'Egypte were amalgamated, and their competition caused the disappearance of smaller concerns owned by rich landowners and small companies. To complete its stranglehold on the industry the new combine proceeded to acquire the factories of the Dairah Sanieh with financial assistance from the Dairah Sugar Corporation. By the beginning of the century the company was the sole producer of sugar in the country.

In the first few years of its existence, the new combine encountered grave difficulties resulting in a gradual deterioration in its financial strength, insolvency and reorganization. The inflated capital structure, excessive charges for dead plants purchased to be dismantled, lavish construction costs, the onerous obligation to pay a large annuity to the Dairah Sugar Corporation, lax administration, graft and speculation and, finally, the charging relationship between sugar and cotton prices which induced landowners, with a grudge against the company's pricing

policy, to shift to cotton, all these factors conspired to produce an early re-organization of the combine and a drastic scaling down of its capital structure. The company has always enjoyed a monopolistic position in Egypt, a position which has been materially strengthened since the imposition of the new tariff and the entry into effect of the sugar convention. The company resorts to all the devices known to monopolists for the maximization of profits. Its bargaining power enabled it to secure large deductions in railway rates varying from 25 to 30% from the Egyptian State Railways. With the fall in world prices after the inflationary rise of the first world war, it threatened to close down some of its factories unless the tariff on imported sugar was raised; seconded by an important pressure group, the Union d'Agriculteurs, interested in higher prices for sugar cane, it secured the desired tariff revision. Finally in 1930 and after, came what a party publication called a "Barrage Formidable de tariffs douaniers" which insulated the local market from the "pernicious avalanche" of foreign imports.

The company engages in price discrimination on a large scale. In the first place, the price lists seem to suggest a degree of discrimination according to the trade status of the buyer, e.g. distributor, wholesaler, retailer, consumer (1) which is not warranted by differences in dealing with each category. In a monopolized trade the business of distribution does not involve a large degree of uncertainty and the risk of deterioration, physical or economic, in the stock is negligible. The terms of sale regulate margins and mark-ups, and resale price maintenance is rigorously enforced under penality of "black listing" by both the company and the local authorities. Secondly, there is some discrimination according to the use to which sugar is applied; thus manufacturers of sweets and chocolates, especially those doing an important export business, are charged less than the internal price of sugar. (2)

In the third place, there is geographical discrimination, because the company quotes delivered prices ex-warehouses in Cairo and Alexandria, the two basing points. Consequently, in the case of Alexandria there is freight absorption and the mill-net prices are lower owing to the fact that the refinery is situated near Cairo. The price differential

(1) In 1932 prices, *ar cantar*, for granulated sugar were P.T. 924, 939, 955, 985 for distributor, wholesaler, retailer and consumer respectively. In this case, moreover, the charge of a long chain of middlemen, and consequently a large distribution bill is amply justified.

(2) This principle is adopted by the Milk Marketing Board in England, the price for liquid milk is higher than that of milk supplied to manufacturers.

in favour of Alexandria is apparently a legacy from the pre-convention period when, owing to foreign competition and the resulting higher elasticity of demand, the price of sugar in Alexandria was lower than in Cairo. In the same way, after the imposition of prohibitive duties on imports, the company embarked on a policy of sporadic dumping to get rid of its large stocks, which were allowed to accumulate lest an increase in supply might have forced down prices in a period of depression. But since the liquidation of stocks, dumping has become a regular feature and is based on large imports of raw sugar to enable the refinery to utilise its excess capacity. (1) The course of exports may be seen from the following table.

Year	Exports (Tons)
35-36	44,058
36-37	73,960
37-38	56,165
38-39	91 863
39-40	103,340

As the convention has resulted in stable internal prices during the thirties, (2) the company was able to sell abroad at the ruling low world prices. Thus, while the prices in the internal market varied between L.E. 21-22 per ton (of which excise duty amounted to L.E. 5) the company was selling the best quality sugar at L.E. 9 in the foreign markets.

Finally, owing to its monopolistic powers the Company's buying policy elicited complaints from cultivators. Even with undisputed command over internal prices it succeeded in lowering the purchasing price of sugar by 10 to 12 ½ per cent. Moreover, owing to differences in the elasticities of supply of sugar cane in different districts, resulting from varying degrees of specificity in land, the company

(1) The theoretical possibility that dumping, by reducing the marginal costs, may result in lower prices in the internal market did not materialize in the case of Egypt.

(2) The price per cantar of lump sugar which was 74 P.T. in 1929 was raised to 110 in 1931. This price rise occurred at a time of falling world prices and was in contrast to the appalling fall in the price of cotton, Egypt's only cash crop. It is no consolation to point out that sugar prices in Egypt were lower than those obtaining in Great Britain or the U.S.A.

pays varying prices for cane, ranging from 36 M per cantar in Armant to 40 in Ibrahimieh, land in the latter district being suitable for alternative crops. It is worth noting here that the Société Anonyme de Wadi Kom Ombo, a powerful sugar cane producing company is able to procure a contract based on a basic price and profit sharing. As the company is, in places, the sole large scale buyer of labour power, it has opportunities for exercising monopolistic exploitation of labour(5).

Monopoly in Transport and Insurance

In Cairo and Alexandria passenger transport services are highly monopolized. In the former the Tramways du Caire operates all town lines and has an important interest in a suburban transport company and in the General Omnibus Company, which operates the bus services of the capital. The two Tramway Companies of Alexandria are bound by an agreement for joint exploitation and by an exchange of shareholdings. They have succeeded in controlling the competing bus services. The road transport undertakings of Lower Egypt have been largely brought under the control of the two concerns, the Charkieh and Dakahlieh Co. and the United Bus Co., whose services are run in co-operation with the two light railway companies. In Upper Egypt, concentration in passenger transport also has proceeded apace. An interesting feature there is the acquisition, in 1939, by a bus magnate of a controlling interest in Fayoum Light Rlways, which is now being run in conjunction with his bus services.

As early as 1923, four competing concerns in inland navigation combined to form the United Egyptian Nile Transport Co., thus suppressing competition in passenger transport on the Nile. Furthermore, the five leading goods transport companies on the Nile had a working agreement with Egyptian State Railways, with the object of suppressing competition which had become acute owing to the limitations on cotton acreage and the diminution of imports of cheap goods after the introduction of the new tariff in 1930. However, difficulties of interpretation arose and the agreement was not renewed. After a period of price-cutting, when rates were more than halved, the two

(5) A by-product of sugar, alcohol, is also in the hands of a giant producer. Dr. Abdel Salam, an industrial chemist, after analyzing the costs of production of alcohol, arrives at the conclusion that monopolistic conditions are responsible for the high ruling prices, and urges the Government to control production. "Chemical Industries in Egypt", p. 139 in Arabic.

leading companies, La Fluviale and the Société Misr were amalgamated to form a new company Misr-Fluviale for the purpose of common exploitation ; both companies remain as pure holding companies.

Nor is monopoly absent from the field of maritime transport. For a long time before 1920, the so-called Liverpool Conference dominated the important business of carrying Egyptian cotton ; and, with the formation of Egyptian navigation companies, they too joined the Conference. The reports of the Société Misr de Navigation Maritime refer to its membership in two conferences of shipping companies, one operating in the Red Sea, its quota in it amounting in 1937 to 37½ % of total tonnage carried, and the other plying the Mediterranean. The same company had a pooling arrangement with Alexandria Navigation S.A.E.

Finally, there are agreements regulating marine insurance rates and those for inland navigation. These agreements are administered by the Alexandria Underwriters' Association acting as the local executive of the London Underwriters Association (1). In the same way the leading "non-life" insurance concerns are affiliated to a syndicate "with the avowed object of applying uniform rates for the same risk (2)".

Reference has already been made to the fact that strong foreign combines operate in Egypt either directly or in association with Egyptian "finance capital". Thus, the Anglo American Tobacco Co. has an important interest in the cigarette combine, Eastern Co., British combines in the textile finishing trades, such as Calico Printers, Calico Bleachers and the Bradford Dyers Association, are heavily interested in the finishing section of the Egyptian Cotton Industry. The Imperial Chemical Industries has important direct investments and is a shareholder in Egyptian Copper Works S.A.E. It has selling agreements with Egyptian Salt and Soda Ltd., and its subsidiary, the Société Financière et Industrielle, for the sale of acids and other chemical products.

(1) Department of Overseas Trade, Economic Conditions in Egypt, 1922, p.21.

(2) R.A. Mayanat, Banking and Financial Business in Egypt, Egypte Contemporaine Vol. XXVII, p. 145. The writer remarks that the agreement "is more honoured in the breach than in the observance, and that cut-throat competition, thinly disguised as additional advantages is rife". See also E. Prima, Le Contrôle des Entreprises d'Assurances, Egypte Contemporaine, Vol. XX.

But it is in the oil industry that the ramifications of international monopoly are more marked. Many of the well-known international oil trusts have been granted mining licences in the new "oil rush" for Middle-Eastern resources. These exclusive concessions grant the right to produce petroleum and to construct pipe lines. The leading company in the field, the Anglo Egyptian Oil Fields, itself a merger of Egyptian Oil Trust Ltd., the Red-Sea Oilfields Ltd., and Africa Prospecting Syndicate Ltd., is managed by the Royal Dutch Shell through the Anglo Saxon Petroleum Co. Ltd. The Société Californ ia Egypte des Pétroles is controlled by the notorious Standard Oil Co. Finally, the Société Egyptienne des Pétroles has a working agreement with the Setsaro, a French combine operating in Rumania and with the California Texas Oil Co. Ltd. (Overseas).

There are many instances of powerful monopoly interests abroad using their financial strength to stifle nascent local competition by "sporadic dumping", tying clauses and through denying local entrepreneurs the privilege of purchasing their machinery. Thus early in the century, an enterprising Egyptian introduced the fez industry, but his attempt was frustrated by a violent campaign of price-cutting by Austrian interests which finally bought up and dismantled his factory. In his evidence to an Egyptian publicist, Mr. Elbanna, the pioneer of the match industry, recounted his fights with the Swedish Match Trust, controlled by the ill-famed Kreuger, and his inability to secure the necessary machinery for his factory. When the Government raised the tariff on imports of foreign matches the Trust opened a branch factory in Egypt to pursue the fight. Finally, the Sidky Committee on Industry and Trade reported the case of a group of German companies, masquerading under the name of a Greek concern, a bogus independent, which entered into tying agreements with the leading gas concerns for the supply of sulphuric acid at very low price. The object of their scheming was to "liquidate" a new undertaking in the chemical industry which had obvious natural advantages due to the high cost of transporting the acid in glass containers.

On the other hand, some local monopolies have established foreign affiliations. Thus the important cement company of Tourah has acquired a controlling interest in the Lebanon Cement Co., in 1953, the Port Said Salt Association entered into an agreement with a concern operating in East Africa. The agreement provided for the

formation of a company, in which the Egyptian concern owns 22.5 % to arrange the "orderly marketing" of salt in the Eastern African territories. It may be added, in passing, that the Port Said Salt Association is able to compete in this market in view of the fact that it pays very low dues on the Suez Canal as salt is used as ballast.

Before winding up this section reference must be made to the Federation of Egyptian Industries, an important bastion of monopoly in Egypt. It was started in 1922, with 24 members; its strength grew rapidly until, in 1937, it had 430 members with capital exceeding L.E. 120 million; the total number of workers in the member firms exceeded 250,000 and their wage bills amounted to L.E. 6 million. The federation has been in the forefront of the agitation for tariff reform, and for securing concessions and preferential treatment for Egyptian manufactures. Its spokesmen have been active in combatting progressive legislation and in counselling moderation in meeting the legitimate demands of the working class. Through the organization of chambers in the various branches, it facilitated the task of negotiation between producers for the purpose of forming cartels. (5) The Federation has been welcomed by the Government as "an example of unity, harmony, tolerance and peaceful progress and as an international body in which Egyptians and Europeans co-operated". It may be added that while sanctioning the formation of employers' associations the law does not permit the formation of a federation of trades unions.

(2) *Government and Monopoly*

We now pass on to an examination of the policy of successive governments towards monopoly in Egyptian industry.

(a) *The Government as a monopolist.*—The Government has, since the early years of the 19th century, played an important role in creating and in fostering monopoly. During the reign of Mohamed Aly most factories were state-owned monopolies. Later on, Ismail Pasha succeeded in increasing the area under sugar cane and built the sugar industry in an attempt to diversify the economy and to

(5) The Secretary of the Federation, Dr. Levi, has criticised the rayon branch of the textile industry because of the prevalence of competition, Egypte Contemporaine, Vol. XXVII, p. 604. In another article, Egypte Contemporaine Vol. XXXI p., 505 he refers to the efforts of the Federation to develop the spirit of "co-operation" among industrialists.

mitigate the effects of the catastrophic fall in the price of cotton which followed the end of the American Civil War. The property of the Khedive, (the Daïrah Saniah), was mortgaged to secure foreign loans. The heavy debt charges coupled with the desire of the government to secure credits to finance the reconquest of the Sudan, forced the Government to transfer the Daïrah's assets, including the sugar factories, to a consortium of foreign and local capitalists headed by Messrs. Cassel and Saurez.

The policy of transferring state-owned enterprise to private monopoly companies was, with one notable exception, persistently followed. The Waterworks of Alexandria were ceded to a company in 1879, together with a concession, for the sum of L.E. 300,000 at a time of dire financial difficulties. Later on the Government monopoly in natron deposits and salt went to the Egyptian Salt and Soda Co. and the burdensome excise on salt (1), amounting to over 2/3rds of the selling price, was reduced. The exception is that of the main line railways, which have always been state-owned ; and the government was anxious to nationalize the few lines operated by private enterprise. Thus, in 1900 the S.A. des Chemins de Fer Kom-ch-Assouan was taken over for a fixed Annuity continuing until 1978 and in view of recent transport history, the deal was favourable to the company. In 1904, the Cairo-Heloüan line was also nationalized. The policy of railway nationalization was praised by the Committee on Industry and Trade (1917) which was of opinion that the conditions of rolling stock on the lines operated by the companies had been far from satisfactory. (2)

A recent case illustrates some of the difficulties associated with the purchase of public utility undertakings from concession companies and the divergence of expert opinions as to their values as going concerns. When, in 1929, it was decided to take over the railway system of Ramleh, a suburb of Alexandria, the company claimed L.E.1,200,000 in compensation. The Committee of expert valuers and accountants appointed by the Mixed Courts fixed the purchase price at L.E.548,966,

(1) Colins, A. *op. cit.*, p. 287. The natron deposits were a burden to the Treasury and their transference may have been in consonance with the avowed policy of financial reform à l'outrance.

(2) Other examples of nationalization in the field of public utilities are those of the telephone and telegraph services in 1918 and the acquisition in 1923 of an electricity undertaking by the Suez Municipality at the end of the concession.

plus interest at 5% from the date of acquisition. Presumably, the company based its valuation on replacement cost, taking into consideration the devaluation of the pound, while the experts based theirs on original cost. Finally, the Court fixed the price at L.E. 348,905 and declared itself incompetent to deal with the problems arising out of the devaluation of the L.E. (3).

With the complete unification of the railway system, the Government regarded it as a source of revenue at a time when its taxing powers were circumscribed by the capitulations. Freight charges were kept at high levels despite low construction costs; roads were neglected and the canals, never intended for navigation, were deficient as an avenue of transport of cheap and bulky goods especially in periods of low water. With the advent of technological changes jeopardizing its monopolistic position, the state did not hesitate to adopt the most restrictive practices known to monopolists to bolster up the railways as a source of revenue. Thus, the retention of the war-time majorations in rates after 1918 induced competition from road haulers and inland navigation companies and more trade was diverted to them. The deflation of world prices, with consequential reductions in railway revenues heralded an era of competition in transport, and the E.S.R. inaugurated many schemes for its suppression.

In 1933, as a result of joint action by the Chamber of Inland Navigation of the Federation of Egyptian Industries an agreement was reached raising water transport rates to "reasonable levels". Provision was made for the apportionment of traffic, with cotton and grain from Upper Egypt reserved for the companies. Later on, the share of the Government in the transport of Upper Egypt cotton was fixed at 30%, and a provision was made for a system of fines and grants which came in operation whenever actual results differed from the agreed quotas. In order to hinder the developments of road transport, the Government embarked, early in the thirties, on a policy of local price cutting; the licensing system was made more rigorous the number of lorries and buses being fixed with due regard to the "requirements" of each area. The state now holds a majority

(3) Similar problems in the field of property valuation are familiar to students of American economic history.

interest in a number of bus companies. These hindrances to the growth of road transport brought losses and unemployment to the industry and have had the effect of reducing the number of commercial lorries and buses from 5,323 in 1932 to 4,074 in 1938.

(b) *Government aid to Monopoly.*—The policy of successive governments, has, sometimes deliberately and sometimes inadvertently, helped to create or to foster monopoly. This is clearly seen from the considerable rebates granted by E.S.R. to huge combines in the sugar and textile industries, the granting and renewal of long-term concessions, the encouragement of cartel agreements in transport and cotton processing and the creation, in 1931, of the sugar regie which grants the sugar combine the exclusive right of producing and trading in sugar and imposes prohibitive duties on imports. In a recent interview with an Egyptian newspaper, the Minister of Commerce and Industry urged further amalgamation in the expanding textile industry and the absorption of smaller mills by larger concerns. This, in his view, would lead to reduction in production costs and prices there by enhancing the power of the industry to withstand the onslaught of foreign competition.(1)

But the most important aid to monopoly (2) is the high tariff barriers behind which monopolies thrive. The most conspicuous case in point is that of sugar. Since 1929 the tariff, which is on a sliding scale basis rising with the fall in world prices, has been quadrupled(3) and is for all intents and purposes prohibitive. (4) An obvious corollary was a rise in the price of sugar in the home markets relatively to 1929 and to the world price of sugar in the over-seas producing countries. The pernicious effects of monopoly are here aggravated by the extremely low purchasing power of the population and its relatively inelastic

(1) The Egyptian Gazette, August 6, 1940. In the same speech, the Minister announced his intention of forming a committee composed of technicians and business men to discuss the means of raising the standards of the industry. Presumably the authorities found it more practicable to co-operate with the large units during the recent war.

(2) An earlier instance of such help occurred when the Government came to the rescue of the sugar combine in 1905 and paid the sum of L.E. 400,000 for the purchase of its narrow gauge railways.

(3) From less than L.E. 4 per ton of refined sugar, the duty rose to L.E. 12 in 1932

(4) Imports in 1930-1931 were less than 5,000 tons and in 1934 less than a thousand tons.

demand for sugar, as black tea is the only luxury in their dreary existence. In this instance the interests of investors and big land owners were served at the expense of the public.

It has been contended that the sugar convention was necessary in the public interest because the industry was threatened with complete extinction.[1] This, it was argued, would have brought havoc to sugar-cane producers in Upper Egypt where over 60,000 feddans and a quarter of a million people were devoted to that culture.[2] It was further contended that "the result of this agreement was that 20,000 industrial workers instead of becoming unemployed, secured a rather permanent job."[3] Now, these arguments rest on complete misapprehension and are actuated by solicitude for the interests of the combine, as if its existence were sacrosanct. The fall in sugar prices would have certainly benefited the consumers. Its initial effect on the combine would have been to reduce its profits which had been considerable since the 1914 war, and which were turned into losses only in 1928 and 1929. But, as long as receipts exceeded short-term marginal costs, the company would have continued in operation with part of the losses falling on sugar-cane producers and workers. Some factors of production would have been diverted to other crops such as cotton and grain, with no effect on their prices as Egypt's share in world production is very small indeed; moreover the large labour force, except in the refinery, is engaged only in the crushing season which lasts just over three months.

In the same way the tariff was "the mother of trusts" in the case of cement. This commodity was subjected to high duties and foreign supplies were excluded from the majority of Egyptian Government adjudications. Prior to the heavy increases in the tariff, the Egyptian Cotton industry was in a precarious position and price-leadership emanated from abroad. Then came the new tariff, with subsequent rises, in 1933 and 1935, the 100% surtax on articles of Russian origin and the 40% depreciated currency surtax on Japanese goods.

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[1] A. Abdel Wahab, in a lecture, delivered in August 1935, and published in the journal of the British Chamber of Commerce for the same year. See also J. Magnel, Le Sucre en Egypte, p. 176.

[2] A. Abdel Wahab, Aspects de l'Economie Dirigée en Egypte, Egypte Contemporaine 1937, p. 437.

[3] Dr. A. Kazhoucht, Monetary Policy in Agricultural Raw Material Producing Countries.

culminating in the further increases of 1938. It is behind this wall that local monopolies are able to wield their substantial power over prices and production.

The Government attitude towards monopoly has, at times, been at variance with its policy in other directions, and is a further proof of the inconsistency of policy in economic matters. For instance, the moral support given to the ginning cartel runs counter to the policy adopted earlier in the thirties, of alleviating the plight of agriculture by deflating processing and other costs. At the time, marketing costs, *i.e.* middlemens' commissions, cost of transport, ginning, pressing and warehousing charges, came to something like 50 % of ruling prices, and their high level was a legacy of earlier boom periods. The attempt to spread the incidence of loss caused by the fall in cotton prices becomes infinitely more difficult if the processing industries are encouraged to adopt monopoly practices.

Similarly, government intervention in agriculture with a view to raising prices, is viewed with disfavour by the industrialists. Any attempt to raise the price of cotton would strengthen the hand of the textile industry in its demands for permission to import Indian cotton. The regulation of wheat prices has been held by certain industrialists as the major cause of depression in the milling industry before the recent war. The sugar monopoly is equally held responsible for the slow development of the soft drink, canning and fruit processing industries.

(c) *Safeguards against monopolistic exploitation.*—However, in framing the deeds of concessions, certain safeguarding clauses were inserted. Thus, assets become state property after a term of years and in many concessions the Government has the right to purchase the property after an initial period, at cost less depreciation, or at a valuation based on net revenue discounted at a stipulated rate of interest. Except in the field of transport, such privileges have rarely been used. On the contrary many concessions were renewed on the expiry of the original period. The sugar convention provides for the establishment of a sugar council representing the producers of sugar-cane, the company and the treasury to preside over the fate of the industry.

Moreover, the Government has some powers over the determination of prices and production in the field of public utilities, and in certain monopolized industries such as salt and sugar. Thus, tram

and bus fares are fixed in consultation with the Government(1) and any increase must be sanctioned by the Ministry of Public Works. In 1894, the Alexandria Municipality intervened to secure a reduction in water rates in the poor districts. In an attempt to reduce the cost of living during the depression of the early thirties, the Government forced the two electricity undertakings of Cairo to reduce the kilowat rate from 25 to 23.4 milliemes. The rates charged by the Cairo Water Co. were reduced from 27 m. per cubic meter to 14 m., after an international expert reported that rates were too high and recommended a rate of 10 m. per cubic meter.(2) Furthermore, the Government intervened in 1912 to fix the price of salt. As early as 1903 there were complaints of the high prices charged by the salt monopoly and of the tying clauses imposed on retailers who were allowed to buy salt only if they bought oil and soda produced by the company(3). Government intervention caused the company to cease and desist "from this practice". However, in 1917 the Committee on Industry and Trade reiterated the complaints of small scattered soap manufactures about exploitation by the Egyptian Salt and Soda Co. The sugar convention gives the Government extensive powers over prices and production of both sugar cane and refined sugar; exports and imports require its prior authorization and it is empowered to reduce the sliding scale import duties whenever local production is deficient. The stabilization of the price of sugar cane entailed the limitation of acreage and the refusal to purchase from new producers.

Finally, the Government exacts from concession companies part of their monopoly gains, and this was a standing policy as long as capitulations were preventing it from imposing "direct" taxation. The share allotted to the Government is variously determined. In the case of a number of transport undertakings, it takes the form of an annual levy on gross incomes.(4) In other cases, a fixed or a sliding

(1) Increases were granted during the first world war to meet the inflationary rise in prices and to meet the demands of workers. More increases took place during the recent war.

(2) House of Representatives debate, reported in the Ahram of July 7, 1946. During the debate an ex-premier was quoted as saying that the company had important connections which protected its interests against molestation by the authorities.

(3) Gaverin, *op. cit.*, p. 33. Local authorities have on various occasions intervened to persuade ice manufacturers to increase supply.

(4) Cairo Electric Railways pays 2.5%, the Egyptian General Omnibus Company 7½; Tramways du Caire pays 5% to the Ministry of Finance and 6½% to the Ministry of Public Works.

scale levy is fixed on net revenue determined according to an agreed formula. (1) The leading example is that of sugar. Out of total receipts deduction is made for production and selling costs, short term interest, allocations to debenture redemption and renewal funds. An initial dividend, varying from 5 to 7 % according to the prices of granulated sugar on the London Market, is then paid to shareholders, after which the Government participates on a sliding scale varying from 70 % on the first L.E. 45,000 to 95 % on all profits exceeding L.E. 160,000. In addition, there is a large excise duty (L.E. 7.500 per ton in 1936) on sugar and alcohol, the collection of which is, incidentally, made easier by the fact of centralized production. The Government revenue from sugar, excise and share in profit, rose from L.E. 987,430 in 1935–1936 to L.E. 2,196,435 in 1939–1940. From mining companies the Government receives a yearly rental, together with a royalty based on annual production. In the case of salt, soda and natron extraction an annual levy, based on the volume of production, is paid to the Government. (2) Finally, the Government has at times exchanged its annual royalty for a share in capital. (3)

Some of the above-mentioned arrangements are objectionable. The companies are allowed to compute their total costs of production and to earn a fixed income based on capital before the Government is entitled to participate. This is not conductive to efficiency in operation. Besides, there is reason to suppose that the capital of some companies is maintained at an inflated level and the arrangements enable them to earn interest on a top-heavy capital structure. Government supervision (4) of accounts and costs is deficient and the financial

(1) In the case of the Delta Light Railways the Government takes 50% of net revenue, which is defined as gross income less (1) 70 % for operating expenses, debenture interest and debenture redemption allocations and (2) 5 % on shareholders capital (Government share in 1942—L.E. 24,159). Similarly, in the case of the Alexandria Water Co., the government gets 50 % of net profits after paying 10 % to shareholders. A sliding scale levy, rising from 12 % on the first L.E. 40,000 of net income to 14 % on the remainder, is imposed on the Electricity and Ice Supply Company.

(2) The amounts were respectively 95 millièmes, 620 and 400 per ton.

(3) In 1899, the Government was allotted 4,000 shares in the Société des Eaux du Caire in exchange for its annual share of profits.

(4) The 1931 Convention exhorts the sugar combine to reduce costs and limits the part of cost "other than the purchase price of sugar and general administrative expenses" to the average for the three years preceding 31 October, 1931. However, this is nothing but wishful thinking. The prohibitive tariff, coupled with a monopolistic position unique in modern economic history, does not provide an incentive for economical operation.

resources of the big combine enable them to institute legal proceedings whenever their interests are jeopardised. The conversion of royalties into a participation in capital limits the share due to the state in the event of expansion. Some of the royalties are a direct charge on marginal costs of production and, thus, may cause a reduction in output, the monopolist's equilibrium output being that which equates marginal cost and marginal revenue. But the most serious objection to the policy of maintaining monopolies while sharing in their profits is the fact that it is highly regressive in its effect on the already appalling inequality of wealth, the more so in view of the fact that, until very recently, customs revenue has been the main source of Government revenue.

It will be seen that the policy of successive governments has been to strengthen the hold of state monopolies and, while tolerating private monopolies, to curb some of their flagrant abuses of power and to secure a share in their profits. Such a policy, it is submitted, is inimical to further industrialization and to the interests of the people. It may be conceded that the existence of monopoly was necessary to ensure that investment in industry was forthcoming in a backward country and that some monopolies have been responsible for modernization and improvements in technique especially where large capital investment was required. Moreover, it may be that certain combines and holding companies are able to realise economies of scale, standardization, specialization in plant[1], centralization of selling[2] and buying[3] and in the raising of capital on advantageous terms. Yet it is abundantly clear that it was the desire to influence prices in the interest of high-cost producers rather than to reduce costs which gave rise to monopoly in Egyptian industry. Our survey shows that the typical monopoly form is the cartel, a form which does not offer many opportunities for cost-reductions. Moreover, some mergers have paid high prices for the acquisition of the constituent firms, some of which had to be subsequently closed down, and the resulting capital-watering deprived them of sorely needed funds and weighed heavily on their financial structure, sometimes necessitating drastic scaling down.

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(1) e.g. the cotton industry.
(2) e.g. the cotton and cement industries.
(3) e.g. the cigarette industry.

In the special circumstances of Egypt the case against monopoly is particularly strong and the evils of exploitation are especially glaring owing to the prevalent poverty and appalling inequality of wealth. The growth of monopoly increases the share of profits, interest and rent in the national income. The price rigidities associated with monopoly are harmful to a country, the price of whose main cash-crop is determined in a world market and is subject to wide price fluctuations. The ossification of the industrial structure in an industrializing country delays the adoption of new techniques lest they adversely affect the value of existing fixed investments. Moreover, the spectre of large and powerful monopolies commanding immense resources holds down expansion especially where restriction of entry is condoned by the state. Finally, capital and entrepreneurial ability are scarce in Egypt and the fear of the emergence of new competition, which in a more advanced country may counsel moderation in exploiting monopoly power, is absent and the effects of monopoly on distribution and on the utilization of resources is therefore more pronounced. The financial power of monopolists, untempered by responsibility, constitutes a threat to new enterprises.

In the past, there have been sporadic revolts at the immense powers wielded by monopolies, especially those controlled by foreigners. The agitation has found its echo in Parliament and in the press, and it produced governmental promises to curb these powers. The first constitutional Government of 1924 declared that its policy in aiding industry was "subject to the control and modification so far as possible of existing foreign monopolies and concessions that savour of monopolies and the discouragement of future attempts in this direction". (1) On many occasions Parliament formed Committees to examine existing concessions with a view to their alteration. (2) Prior to its accession to Power, the Saadist League published a pamphlet urging the investigation of the sugar industry by a committee of economists and business men with a view to putting it on a more sound basis viz a viz foreign competition. (3) Finally, in July, 1946, a report appeared in the papers to the affect that the legal department was actively engaged in preparing a law for the control of monopoly. (4)

(1) Department of Overseas Trade, Report on Economic Conditions in Egypt, 1924, p. 20.
(2) L'Egypte Indépendante, p. 339.
(3) Ligue Saadiste "Rapport de la Commission des Recherches Economiques" 1945.
(4) Akhbar El Yom, July 1946.

Now, the proposed law should reverse the policy hitherto adopted by Government in bolstering up monopolies. But its framers should avoid the difficulties and pitfalls experienced by other countries notably the U.S.A., where for some time, trust busting legislation was in force, and the legislature has grappled for years with the definition of such vague terms as monopoly, discrimination and restraint of trade without conspicuous success. An unsympathetic judiciary whittled down the provisions of the Anti-trust laws by limiting their application to "unreasonable restraint of trade" while the executive excluded one field of enterprise after another from the scope of the law. The high cost of litigation, judicial procrastination and inability to comprehend the changes in economic society, the astuteness of corporation lawyers in devising legal formulas to replace old ones so that the break up of monopoly in one form merely led to its resurrection in another and the fact that the break up of trusts resulted in the prevalence of conditions of quasi-monopoly, where the recognition of "mutual dependence" leads to the emergence of monopoly price and output, all these factors militated against the success of some parts of the American legislation. Finally, the New Deal legislation for output and price control and for regulating the plane of competition made substantial concessions to monopolies as a quid pro quo for wage increases, re-employment and other anti-deflationary measures. (1) The real achievements of American Anti-Trust action were the publicity given to the Feds, or fact-finding commissions and the control of cartels and the more pernicious monopoly practices.

The best policy for Egypt would be to appoint a committee of experts to survey the whole field of monopoly and to examine existing concessions and cartel agreements. The aim of the new law should be to create a legal frame-work unfavourable to the growth of monopoly. Price and quota fixing agreements should be made illegal and the most notorious monopoly devices such as the boycott, tying clauses, deferred rebates should be outlawed. But size per se should not be

(1) In the thirties economic policy in England was directed towards the rehabilitation of the depressed industries through the establishment of larger production and selling units and the reduction in "surplus" capacity. The Bank of England presided over this policy which identified restrictionism with planning. Agriculture was also entangled in a mesh of marketing boards, quotas and price-fixing agreements. The evolution of judicial thought on restraint of trade is summarized by W. A. Lewis, Monopoly and the Law, Modern Law Review April, 1943, p. 97.

considered an offence; for if, under obligopoly, large size and the domination of the market by a few firms lead to a reduction in production or selling costs which is passed on to the public in the form of price reduction or improvement in quality, the breaking up of large units would not be in the general interest. But here again, periodic investigation by a fact-finding body, backed with adequate funds, should ascertain whether the alleged economies are real or fictitious and whether inefficiency is being perpetuated behind monopoly and protection.

As existing concessions expire, the undertakings should be taken over by public or semi-public corporations or by municipalities. Moreover, the Government should not enter into any new restrictive conventions of the kind granted to the sugar combine and should in no way raise the tariff to bolster up existing monopoly positions. The new legislation would remain a dead letter as long as the Government adopts some of the worst policies attributed to monopolies and derives part of its revenues from the taxation of monopoly profits, and so long as it proffers advice to industrialists to amalgamate, and looks with favour on their restrictive practices.

CHAPTER IX

Labour in Industry

(1) *The State of the Worker.*

The first striking fact that emerges from a study of labour conditions in Egypt is the low level of wages in industry compared with the irreducible minimum required for maintining efficiency. The second is the narrow range between earnings in agriculture and industry. Despite the wage differential between town and country, the statutory minimum daily wage for industrial and agricultural workers in the middle of 1944 being 10 P.T. (2/-) and 5 P.T. (1/-) respectively (1), the difference in real wages is much less marked owing to the high cost of living in towns. The average wage rates in a number of industries are shown in the following table which summarizes the results of a survey conducted by the Labour Department in 1938 (2).

Table 1.—Average Daily Wage in Workshops Employing 5 or more Workers, 1938

Industry	Average daily wage
	P.T.
Spinning and Weaving wool, Natural and Synthetic silk	4.7
Copper and tin smithing	4.1
Making of containers and barrels	3.8
Carpentry and upholstery	3.3
Blacksmithing and metal works	3.3
Tailoring, ready-made clothes	3.0
Carpet and Mat-making	1.6
Average for all groups	3.9

N.B.—A piastre (P.T.) is equivalent to 2.46 pence.

(1) The minimum wage for agriculture was subsequently raised to 10 P.T. in the provinces of Kench and Aswan.

(2) Labour Questions in Egypt, Stocktaking and General Observations, Report of the Under-Secretary of State for Social Affairs, 1944, p. 2.

The survey reveals that the average weekly wage in the above mentioned industries ranged from 9.8 P.T. in the mat-making industry, to 24.6 P.T. in copper and tin smithing, assuming a six day week and full-time employment. But it must be remarked that conditions are sometimes even worse than may be suggested from the table as it applies only to workshops employing 5 or more workers, thereby excluding many of the "sweated trades". Moreover, the averages conceal a good deal of dispersion especially in industries employing a large number of women and children; nor does the survey attempt to differentiate between town and country or between various degrees of skill. However, some fragmentary information is available to show the extent of the gap between the wages of various "non-competing" groups. Thus in the early 1930's the average daily wage in agriculture varied from P.T. 2.5 to P.T. 3 (6.7 d) for a working day exceeding 12 hours (1). Dr. Butler, the I.L.O. expert, estimated that in 1932 the average daily wage for the fairly scarce skilled mechanic varied from 20 to 30 P.T. while that of unskilled workers ranged from 7 to 12 P.T. (2)

In compliance with the recommendations of the I.L.O., a number of wage censuses were taken during the last war and their results are more telling. In July 1943, at a time when industry was highly profitable, the average weekly wage in the 29 groups of "transformation industry", transport and public utility ranged from 57 P.T. to 202 P.T. while regional wages ranged from 47 P.T. in Guirga and Assiut to P.T. 176 in Suez. The general weekly average rose from P.T. 54 in 1938, assuming a 6 day week, to P.T. 90 in July 1943, while the official cost of living index number rose to 242 (June, July, August 1939 100).

The following comparison throws more light on the relationship between earnings and living expenses. In July 1942, the Statistical Department conducted an investigation into the expenses of food, fuel and soap for a worker with a wife and four dependents. (3) A glance at the items included shows that what was intended was not a calculation of a "bare subsistence standard", but rather a standard

(1) Department of Overseas Trade, Economic Conditions in Egypt, 1931.

(2) This judgment tallies with that of J. Mazel, op. cit. p. 187, who estimated that in Central Egypt a skilled mechanic in the sugar industry earned between 10 and 15 L.E. a month. Mazel's figures are higher owing to the existence of a large number of foreign technicians in the sugar factories.

(3) Report of the Under-Secretary for Social Affairs, Labour Questions in Egypt, p. 2.

of decent existence. The wishful thinking of the department is betrayed by the inclusion of small quantities of such luxury items as veal, mutton and eggs in the diet of the worker. However, taking the official prices, which be it noted, were far below market prices, it was estimated that the sum of 438.9 P.T. was necessary to maintain the assumed standard, while the mean monthly earnings for the same period were 262.5 P.T. The gap becomes even more startling when we modify the calculations of the department by excluding meat, eggs, soap and fish and other luxuries, and concentrating on the bare necessities of life. The revised figure, which does not include rent, clothing, medical care or minor comforts, would be P.T. 346, indicating that the majority of workers in towns live below subsistence level.

The low earning power of the proletariat is due, apart from exploitation of which more anon, to the extremely low marginal productivity of the majority of workers especially those recruited from country districts. This statement, however, does not hold true for the skilled or semi-skilled town worker. Thus, Dr. Butler was assured by European managers that Egyptian workers "rivalled or even surpassed" European standards although they lacked the same "regularity and intensity of production". The report of the British Goodwill Trade Mission to Egypt (1945) assures us that Egyptian labour "has a capacity to learn quickly routine production" (2) and again that the workers "show a capacity to master quickly a mechanical operation". (3) The low productivity of the many, compared with the standards of more advanced countries, is due to the following causes.

First, the prevalence of illiteracy. In 1937 over 80 per cent of the population, excluding children under 5, were illiterate and their adaptability to machine production therefore is very difficult. Moreover specialized technical training has developed very slowly. It was introduced by Mohamed Ali early in the last century but was allowed to wither away under his successors and during the British Occupation; so was the policy of sending educational missions abroad. While between 1813 and 1849, 310 students were sent abroad to study industry and engineering, only 149 were sent between 1849 and 1882. During the British Occupation 1883–1919 only 45 students were sent abroad to study technology. Conversely between 1920 and 1937, the number

(2) Report p. 29.
(3) *Ibid*, p. 18.

rose to 619. (1) Towards the turn of the century, a scheme of training was combined with elementary education to cater for the expanding needs of state railways and workshops. Industrial Art Schools were established by Government and country councils, religious and benevolent societies, and a faculty of technology was started.

In recent years there has been some progress; the population of schools of all descriptions rose from 563,353 in 1927 to 1,302,998 in 1937. The number of students attending technical schools rose from 2,650 in 1918 to 7,352 in 1928 and to 17,352 in 1936–1937, and a change in emphasis occurred in the faculties of technology from civil to mechanical and electrical engineering. The utilization of large numbers of men in the manufacturing and repairing workshops of the allied expeditionary forces during the recent war has resulted in a substantial increase in the supply of skilled and semi-skilled mechanics. However, much remains to be done to heighten the productivity of workers through adult education, the institution of new and the subsidization of existing training schemes. Failing such measures the capacity of workers to benefit by industrialization will be severely circumscribed.

Secondly.—The low state of health and the appalling housing conditions of the worker in both town and country. The Technical Adviser to the Egyptian Ministry of Agriculture has recently estimated "that half the inhabitants of Egypt suffer from Ankylostomiasis, the symptoms of which are mental and physical inertia". (2) He reckons "that the output of an Egyptian peasant suffering from this disease is 33 per cent less than the average". There are ten million Egyptians suffering from bilharziasis "which saps the mental and physical energy of the patient". This is the toll that Egypt has paid for the extension of perennial irrigation which enriched the propertied classes at the expense of the people's health. More recently malaria too has assumed serious proportions. It is estimated that 95 per cent of the population suffer from serious eye diseases. (3) In 1939, while the birth rate was 42.2 ‰, the death rate, probably the highest in the world, was 26 per thousand the average expectation of life was around thirty years. "The Army finds only 4 per cent of the recruits drafted healthy enough

(1) Figures supplied by the Director of the Egyptian Institute, London.

(2) From paper by Dr. Mitwawi. See the Bulletin No. 8 p. 11. Journal of the Egyptian Institute, London.

(3) W. Cleland The Population Problem of Egypt, p. 87.

to be enrolled without medical treatment. (1) The progressive decline in health and efficiency is evidenced by the fact that whereas the age-group 40–49 of industrial workers numbered 41,200 in the 1937 census, that of 50–59 numbered only 16,200.

The diet of the working class falls far short of the absolute minimum and is highly unbalanced and lacking in vitamins and minerals. According to Dr. Barakat (2) "Pre-war Estimated Supplies of Nutrients" per head per day" were 2,199 calories and the incidence of nutrition deficiency diseases is very high". The figures for Egypt compare unfavourably with those of pre-war Greece (2,500), Italy (2,550) and Yugoslavia (2,700) and other countries of Eastern and Southern Europe. (3) It must be emphasized, however, that owing to the extremely uneven distribution of purchasing power the calory figure for the lower income groups must be substantially below the mean figures given by Dr. Barakat.

The situation with respect to housing in industrial areas is grim indeed. What are euphemistically termed houses are nothing but filthy hovels where masses of human beings are herded in utter disregard of hygiene or the dignity of man. In 1935, a survey by an Egyptian statistician, Dr. Shafi' showed that over-crowding was rampant. Families of five or more persons were found living in two narrow rooms. (4) In Mehalla el Kobra and elsewhere, the same room may be occupied by shifts of 10 to 20 workers day and night. Although for suburban dwellers a guarantee of a loan of L.E. 400 thousand enabled the Heliopolis oasis company to construct dwellings for the middle classes, only paltry attempts were made to subsidize the building of workers tenements. Thus, in 1938, less than 100 flats were built at a total cost of 34,260 L.E. and were subsequently rented to Civil Servants although ostensibly built for workers. Again in 1938, the sum of L.E. 500,000 was appropriated for slum clearance schemes but the project was shelved on the outbreak of War. Moreover, some of the companies situated outside Cairo and Alexandria provide accommodation

(1) W. CHALARD, A Population Plan for Egypt, Egypte Contemporaine, Vol. XXX, p. 464.

(2) The Problem of Nutrition in Egypt, The Bulletin, New Year 1947, p. 20.

(3) Economic Recovery in the Countries Assisted by UNRRA. Report to the Secretary General of UNO, Sept. 1946.

(4) Social Affairs, Monthly Review issued by the Ministry of Social Affairs, Oct. 1942

for their clerical and technical staffs, and during the war large industrial establishments invested part of their inflated war profits in building workers dwellings in an attempt, no double, to evade the Excess Profits Tax. (1)

Now the state of the worker as regards education, health, nutrition and housing is seen to be intolerable by any standard. However much one may blame the imperialist power for omissions and commissions one cannot help the thought that its acceptance by the propertied classes testifies to the depths of moral degradation to which they have sunk. There is an urgent need for a frontal attack on the problems of diseases, ignorance and poverty on bolder lines than are envisaged in the yet un-executed five-year plan of post war reconstruction. As to immediate measures, the government would be well advised to assist the vulnerable groups of industrial workers through a scheme of subsidized communal feeding. A housing scheme for towns should be worked out on government-owned land with interest guarantees as a remedy for the temporary post-war unemployment. Finally, a periodic medical inspection of factory workers, such as is done for school children should be introduced at once, and the cost should not be prohibitive in view of the large number of disguised unemployment in the medical profession.

Thirdly.—There are factors outside the control of the worker which tend to lower the marginal productivity of labour as compared with the industrially advanced countries. Production is handicapped by the use of old and outworn equipment. The desire to economise in the use of capital leads in some industries to the choice of processes involving too high a coefficient of labour. A good example is the textile industry where less looms per worker are used in comparison with Japan, Lancashire or the U.S.A. Inefficient methods of supervision and planning in production coupled with inadequate foremanship are responsible for much waste. Lack of managerial ability does not allow the choice of least-cost combinations. But here, with the accumulation of experience and the introduction of scientific aids to management some progress may be expected in the near future.

(1) During the war temporary tenements were erected in Mehalla and Damanhour to house evacuees from aerial bombardment. They have now been handed over to companies for use as Workers' dwellings.

Furthermore owing to exploitation, labour does not get its full share in the imputation of the national product. This is due to the inequality of bargaining power, the existance of unemployment, total or disguised, the dire need of the workers for the wherewithal to keep body and soul together and their readiness to accept any price offered for their labour power. Furthermore, the prevalence of monopoly and trade associations and the spirit of group-solidarity among entrepreneurs enable them, in the absence of strong trade union pressure, to maintain low wages and resist any upward trend. Monopolistic exploitations exists in the one factory towns, and in the large cities wherever a single firm dominates the demand for a particular category of workers and, by the weight of its decision, keeps the ruling price of labour below its marginal productivity. Finally the ignorance and lethargy of workers and their ties with the village prevent them from securing information about alternative employment opportunities.

If the preceding analysis is correct it follows that there is a prima facie case for state intervention to regulate wages. The realization of its duty in this respect may have inspired its intervention during the war, when general minimum wages were fixed by statutes at a time when profits were increasing very rapidly, while wages were lagging behind. Moreover, realization by the government of the existence of exploitation may be inferred from the evidence given by its representative before the Governing body of the International Monetary Fund when the question of the parity of the Egyptian Pound was being discussed in December 1946. It was then claimed that the inflationary rise in prices was partly due to the fact that the share of capital is disproportionately higher than that of labour, and that a considerable reduction in prices is possible if profit margins were reduced. (1)

The introduction of compulsory minimum wages is admittedly difficult to enforce by an in-experienced administration. Far, exice from the case of evasion, great care should be devoted to studying the case of sub-ordinary workers and allowance must be made for the varying circumstances of different industries and different localities. Yet a beginning must be made with the worst cases on record. It would certainly lead to higher efficiency via better nutrition, and to increased demand for industrial goods. It might induce employers to take in

(1) El Misri, 16/12/1946.

the slack by introducing more efficient methods of production. Moreover, its success in Egypt is facilitated by the difficulty of substituting capital for labour or by shifts to more capital intensive branches of industry. (1)

Nevertheless, no exaggerated hopes should be pinned on government wage-fixing. While some of the gain may be at the expense of monopoly profits, any rise in the monopolized sector producing wage goods would probably result in price increases so that real wages may not be substantially affected and the gains to a section of the working class would be at the expense of others.

The general level of industrial earnings will remain low so long as agrarian over-population persists (2), with net reproduction rates very much above unity. Only with the improvement in health, the extension of education, the reform of the inequitable system of land tenure, the improvement of irrigation and drainage and considerable transfer of population to industry can rural incomes rise to a level ensuring decent existence.

Fortunately there are signs pointing to a reduction in the rate of decennial growth of population, a fall in the percentage of married women, a rise in the average age at marriage and a fall in the rate of fertility. It is to be confidently hoped that with the spread of education and industrialization the movement will be intensified. (3)

(2) *Government Intervention in the Labour Market.*

(a) *Factory Laws.*—In the eighties of the 19th Century a law gave the coup de grace to the decaying craft guilds; but no law was passed to regulate labour conditions in the rising industries till the turn of the Century. As in all industrial countries, such legislation began by dealing with the evils associated with the employment of children. It started with the cotton mills where in the first decade of the Century

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(1) M. Doss, *Wages.*

(2) In his analysis of family income in an Egyptian province, Dr. A. Ammar found that 22.6% of the total sample spend L.E. 5 or less per annum, 48.1% spend from L.E. 5.1 to L.E. 15 and only 19.5 % can spend more than L.E. 15 in the whole year, excluding rent ". A Demographic Study of an Egyptian Province, p. 62.

(3)

	1907	1937
Rate of decennial growth	1·6	1·2
Percentage of married women to women of 15–50	73·3	72·9
Birth rate per thousand women	133	182

"children and adults alike worked sometimes for twelve, usually for fifteen and on occasions even for sixteen or eighteen hours a day. (1) Flogging was prevalent and the atmosphere of the mills was charged with dust. In 1900, a law was passed prohibiting the employment of children under nine in cotton ginning and a few other industries, and regulating the employment of young persons under the age of 13 years. By 1931, the Child Labour Law had been extended by ministerial orders to more than 20 branches of industry deemed injurious to the health of children.

Yet owing to lax administration, child labour was prevalent under appalling conditions and for very long hours as late as the thirties; and the fact was frankly admitted despite the statutory minimum. In 1930, Dame A. Anderson estimated that half the workers in the cotton mills were under 15. Her description of the cane and whip treatment meted to children by ogre-like overseers and the need "shrill whistling and clanking of irons to keep the boys and girls awake and attentive" (2) are reminiscent of the gruesome tales of the early days of the industrial revolution in England. In the rug-making industry, speeding up of children was widely practised "as only by swift movements of very young workers is it possible to turn out hand-made rugs quickly and cheaply enough to make production profitable for foreign markets". The effect was shocking and the writer reported having met children "with all expression of childhood gone from their faces".

It had been thought, among others by the omnipotent Lord Cromer, "that legislation was legally impossible, because the capitulations stood in the way". The laissez-faire policy of the period and the fear of any legislation that might displease foreign capitalists were at the root of the criminal negligence in labour legislation. However, the growth of industry, the widespread resentment at the prevalent abuses as well as the assumption of power by an Egyptian landed bourgeoisie with a bias against foreign financial interests led to some measure of reform. In 1927 the Riaa Committee was formed to adapt foreign legislation to Egyptian conditions, and in 1930, a labour office was formed to initiate and administer legislation. "But, no doubt with a view to keeping these activities (of the workers) within limit

(1) H. N. Brailsford, The War of Steel and Gold, p. 114.
(2) A. Anderson, International Labour Review, Vol. XXII, No. 6, December 1930.

and maintaining the tempo of progress somewhere between adagio and andante, the office was attached to the public security department". (1) This "most compromising connection with a department whose chief instrument is the police" (2) aroused the suspicions of the workers and was subsequently dropped. A rather unwieldy "Higher Labour Council" was formed in 1932. (3) In the same year the Director of I.L.O. visited the country and drew up a comprehensive programme of legislation, most of which has since found its way to the Statute Book.

The first fruit of the agitation was the law No. 41/1933 regulating the employment of children and young persons in industry. Like all legislation affecting foreigners, it had to be approved by the General Assembly of the Mixed Court of Appeal. The law prohibits the employment of young persons under 17 in a number of dangerous industries. It represents an advance on the previous law in that it prohibits the employment of children under 12 years except in the textile industry, where persons aged between 9 and 12 may be employed subject to the fulfilment of certain hygienic requirements, maximum working hours i.e. 7 for the age group 9–12 and 9 for the age group 12–15, are laid down while overtime and night-work for children and adolescents are prohibited. A campaign of inspection was organized to secure enforcement and in the year 1934–1935, no less than 2,061 contraventions were made in respect of laws Nos. 48 and 80, with 1,600 indictments. (4) Yet the Under-Secretary for Social Affairs in the 1944 report states, with disarming candour, that the law was not strictly observed, and that children were still working in unhealthy establishments.

In judging this law, one must bear in mind the fact that, owing to the lamentable lack of educational facilities, it is not safe to suggest standards more in keeping with those of progressive countries. The raising of statutory minimum would, in the present circumstances, result in increased juvenile deliquency and beggary. "As heretofore in countries earlier industrialized it seems that the effectual control and limitation of child-labour in the factory cannot proceed very far until

(1) The Times Book of Egypt, p. 197.

(2) Labour Office Report, 1935, p. 2.

(3) International Labour Review, 1945, reports the reconstruction of the Council, now composed of 30 members.

(4) Labour Office Report, 1935. The percentage of children under 14 years amounted to 15 % in the industrial census of 1927 but only to 12 % in 1937. In the population census of 1937, 4,300 persons under 10 and 36,063 in the age group 10–14 were registered under the heading transformation industry, which includes the handicrafts.

there are schools and play-grounds". Moreover, the loss of earnings would represent real hardship to poor families and the controlled evils of employment may be less than those of vagrancy.

The Law No. 80/1933 regulates the employment of women in industry, mining, transport and commerce. It fixes the maximum number of hours to be worked at nine, with one or more rest pauses (Article 3) and introduces a weekly day of rest (Article 9). The Law prohibits night-work (Article 5) except in theatres, cinemas, hotels and industries dealing with highly perishable goods; it also prohibits the employment of women underground and in dangerous industries. The scope of the act is not wide because the employment of women in industry, unlike agriculture, is not prevalent. In 1927 only 3 per cent of the total workers engaged in all establishments were females and the percentage was the same for 1937. As may be expected the largest concentration was in cotton spinning and in the clothing industries (2,564 and 1,641 respectively). Yet owing to the small differential between wage rates for men and women some substitution took place after 1933 partly to avoid the irksomeness of inspection and record-taking, but mainly owing to the difficulty of combining the lower working day of women with the higher working day of men.

A bolder step in social legislation was taken in 1935 when the working day in a number of dangerous industries was fixed at nine, to be increased to eleven at over-time rates. This commendable piece of legislation should be generlized as it seems certain, judging from the following table, that the optimum working day is exceeded, and that a limitation of hours would result in greater efficiency and productivity. (1)

TABLE II.—NUMBER OF HOURS OF WORK IN INDUSTRIAL CONCERNS, 1937

No. of Hours	Percentage of establishments
Below 40	7
40 — 49	13
50 — 59	10
60 — 69	12
70 — 79	15
80 and above	13
Not indicated	30
	100

(1) In 1927 31·4 % of reporting factories had no weekly day of rest. In 1937 the percentage fell to 30.

In 1944, came the law No. 41 (1), a comprehensive attempt to regulate the relations of master and servant. It attempts, first, to eliminate some of the abuses associated with the pernicious system of labour contractors, which thrived owing to the existence of foreign entrepreneurs and their need for labour. It is there laid down that the difference between what the worker actually receives and the wage stipulated in the contract must in no way exceed 10 per cent. It imposes a measure of control on intermediaries in that they are required to register with the Ministry of Social Affairs. If the contractor fails to pay the agreed wages the master becomes automatically liable to them.(2) Secondly, it introduces wage safeguards and anti-truck clauses. Thus wages must now be paid at regular intervals in legal tender money. Finally, there are provisions for the regulation of fines, notices, references, leaving gratuities(3), holidays and dismissal.

(b) *Workmen's Compensation*(4).—The steady march of mechanization in industry and transport brought about an increase in the number of accidents and of legal claims for compensation. At first, the Courts ruled that the rights of the worker were determined by common law and awarded damages for accidents arising out of and in the course of employment only when personal negligence on the part of the master was proved (5). No award was made in case of accidents caused by acts of God or mere chance (cas fortuit, force majeure), or by inherent

(1) The law does not apply to agriculture, casual labourers, workshops with no mechanical appliances or to workshops employing less than 5 workers or having a capital of L.E. 200 or less.

(2) In 1935, the Labour Office suggested that contractors be required to pay caution money out of which workers could recoup any arrears of wages.

(3) Leaving gratuities have been a bone of contention with employers in the public utility fields faced with fairly strong trade unions. In other countries such provisions as well as those for old age pension are financed on the tripartite principle by employers, employed and the state.

(4) On the Case Law relating to industrial accidents see the following important articles:

Bigiavi, E., Des Accidents du Travail et de la Protection des Ouvriers en Egypte, Egypte Contemporaine No. 4, 1910.

Prof. F. P. Walton, Employers Liability, E.C. Vol. XII.

Hamdi, F., Les Réformes Législatives à introduire en matière d'accidents de Travail, E.C. Vol. XIX.

Tolonciu, E., De la Loi sur les Accidents de Travail, E.C. Vol. XXXI.

Prof. Fraser, The Draft Law on Workmen's Compensation, Revue Al Qanoun Wal Ittihad, 1935.

(5) Appel. Cairo, 15 February, 1927, XXVIII No. 58/11. Bulletin Officiel des Tribunaux Indigènes 1920-1929, p. 120.

occupational risks (volenti non fit injuria).(1) Contributory negligence either absolved the employer altogether or else reduced the amount of compensation due.(2) Egyptian jurisprudence, however, did not follow the cruel British doctrine of common employment and it was ruled that the employer was responsible for injury caused to a workman by the negligence of a fellow worker. Finally occupational diseases gave no claim to compensation.

This state of affairs was most unfavourable to the worker. It was extremely difficult to reconstruct the accident in order to prove negligence on the part of the master, or to get fellow workers to testify against the employer. High costs of litigation in the mixed Courts were a stumbling block, especially that many employers followed the cases to the highest tribunal. The Courts, mixed and indigenous alike, "took a rather lenient view of the duty of the employer", and were averse to granting indemnities commensurate with the injury suffered by the worker. They took refuge in the absence of special labour legislation, while safeguarding the proprietary rights of businessmen despite the absence of a law relating to trade marks. In a case where both the plaintiff and the defendant were Italian the plea of the Counsel for the plaintiff, that the relevant Italian legislation be applied was rejected. Suggestions that the onus should be shifted to the employer to show absence of negligence was not heeded.

In the early twenties, however, a remarkable change occurred in the attitude of the judiciary and the process of liberalization can be gleaned from a number of cases. Thus, in one case a clause exempting the employer from liability for accidents was declared null and void; in another, compensation was granted even when there was contributory negligence on the part of the worker. In yet a third case, the master was required to prove first that he had taken the necessary precautions to assure the safety of the worker and, secondly, that the accident was solely due to the negligence or premeditation of the worker.(3) Moreover, the sums awarded in compensation rose appreciably. Thus, a widow of an unskilled worker killed in a lift was awarded compensation amounting to 24 years' pay, while in another case the sum of L.E. 400 was awarded. The change caused large employers and

(1) App. 22 June, 1918, XVII, No. 18.
(2) Trib. app. Cairo, 19 January, 1927, XXVIII, 132/11.
(3) Trib., Bom. Ellebban, 21 Feb. 1924, XXVI, No. 9311.

contractors to recognize their liability and insure against it especially where trade union pressure was felt.

The following table shows the number of accidents "reported" to the Labour Office in the years 1932–1933 and 1933–1934, and again in 1942 (1).

TABLE III.—ACCIDENTS IN EGYPTIAN INDUSTRY

Year	Fatal accidents	Non-fatal accidents	Total	Remarks
1932–1933	133	6,113	6,246	14 fatal and 3,829 non-fatal accidents occurred in Govt. administration.
1933–1934	90	7,295	7,385	6 fatal and 4,559 non-fatal accidents occurred in Govt. administration.
1942	206	15,257	15,463	Of the non-fatal there were 1410 cases of permanent incapacitation.

The accident rate per a thousand employed for 1942, assuming that all accidents occurred in mechanized industry and transport, would be 50 for all workers (2). In the same years, 1,363 fatal and 313,267 non-fatal accidents occurred in Great Britain and the accident rate per a thousand employed in 1945 was 49 for men of eighteen and over. (3) The similarity of the figures must not blind us to the fact that industry in Egypt is much less mechanized and employment in mining, metallurgy and engineering, where accidents are apt to be high, is insignificant. The doubling of industrial accidents between 1933–1934 and 1942 cannot be accounted for by the march of industrialization as the number

(1) Sources: For the first two years: Report of the Labour Office, 1935. Annexe B. For the year 1942 the Report of the Under-Secretary of State for Social Affairs, 1944. p. 7.

(2) It is not possible to compute separate rates for women and young persons owing to the absence of detailed statistics.

(3) The Report of the Factory Inspector 1945 summarized in The Times, Dec. 24, 1946.

of industrial workers in factories increased by a small proportion only. It is indicative of the neglect of the worker's life and limb. However, accident proneness is apt to be higher in a country of illiterate and diseased workers, who are suddenly brought in contact with mechanized industry. The use of drugs, the high labour turn-over, the fact that workers don loose flowing garments, which frequently get entangled with the machines, and the moslem fast during the holy month of Ramadan must be aggravating factors.

As regards provisions for the safety and health of the workers conditions differ. Up-to-date factories with modern conveniences exist side by side with small sized factories housed in dilapidated buildings. According to Dr. Carozzi, the I.L.O. expert on industrial hygiene, the enclosure of machines and the use of protective devices are rare. The factory edicts, providing for periodic inspection and testing of machinery, and the 1904 Law (No. 13), governing the granting of licences to Dangerous, Unhealthy and Inconvenient establishments (1) which both Dr. Butler and Dr. Carozzi (2) have found adequate, are sadly lacking in enforcement as the two distinguished authorities testify in their reports. These laws together with the provisions of the 1944 Act (Contract of Employment) enjoining employers to take the necessary safety precautions will remain ineffective until the Labour Department succeeds in recruiting a team of efficient, trained and conscientious inspectors with moral courage to stand up to the powerful financial interests backed by unscrupulous politicians who succeed, on occasion, in putting contraventions to sleep.

The change in jurisprudence and the award of steadily increasing compensation to workers and the uncertainty created thereby led to agitation on the part of businessmen for legislation defining employers liability. The new Act (No. 64/1936) applies to industry, mining, construction of buildings, transport, commerce and to workers operating power-driven machinery in agricultre. It provides that all accidents be reported to the labour Office and establishes a scale of compensation. Thus for fatal accidents the next of kin receive compensation amounting to 800 days' wages based on the average wage during the three months

(1) With regard to installations, machinery, methods of production and working hours, the authorities may prescribe in the licence such dispositions and special measures as may be necessary in the interests of those who work in or live near the premises. (Art. 3 of the arrêté dated August 29, 1904).

(2) Dr. Carozzi, Report on Industrial Hygiene in Egypt.

preceeding death (Art. 26) (minimum L.E. 80 and maximum L.E. 300). For total incapacitation 1,000 days' wages (minimum L.E. 100 and maximum L.E. 350) are awarded. In the case of partial incapacitation compensation is calculated according to a complicated schedule where each injury is reckoned as a percentage of total incapacity.

The Law No. 86/1942 filled a serious gap in social legislation by making the insurance of liability, under Law No. 46/1936, compulsory for non-commercial establishments (Art 1). It prohibits the deduction of insurance premiums from wages (Art 5). There is a provision exempting enterprises employing more than 100 workers from compulsory insurance provided they deposit caution money (Art. 5). Apart from this kind of self-insurance the law authorizes the formation of mutual indemnity associations of 10 or more employers. Yet, most of the insurance is at present done with existing companies which issue policies covering employers liability under the act. Although the law authorizes the Government to fix maximum premiums in the light of the results of current operations (Art. 14) the government has not, hitherto, intervened.

Certain criticisms of the acts are suggested by a study of the experience of other countries. It is submitted that the upper limit to the wages of persons entitled to benefit by compensation should be abolished, that the lump sum payment be replaced by annuities, that the amount payable should be related to the family responsibilities of workers and that a panel of specialized judges should deal with cases arising out of the Law. The 1942 Act implicitly reveals the intention of the government to establish a fund to replace the present insurance arrangements. Such a plan should be inaugurated at once as it is notorious that the insurance premiums charged by private enterprise far exceed the real risk premiums. The management of the proposed fund should not only consolidate the risk but also initiate reserves for the purpose of reducing it and should establish a system of "merit" rating. Such a scheme would also provide for covering the risks in the numerous small enterprises not covered at present.(1)

The question of occupational diseases in Egypt has not received the attention it deserves. In tanneries the workers wade in stale water

(1) Professor FRAIHA suggested the imposition of a small tax of 50 P.T. per annum on employers exempted from the legal obligation as a contribution to a special state fund. Revue Al Qanoun Wal Iktisad, 1934. This could be better done as part of the comprehensive scheme.

which is detrimental to their health. In ginning mills the prevalence of dust and fluff is extremely injurious to lungs and there is an urgent need for introducing dust-eliminating apparatus and for laying down a standard of atmospheric purity to reduce the incidence of tuberculosis. In 1936 a motion was passed in the Chamber of Deputies asking the Government "to force owners to distribute masks to the workers" but nothing has been done to implement the decision. Recently, scientific research has produced a cheap mask and there is much to be said for a plan whereby the state would subsidize the distribution of such protective devices. As a recent report suggests conditions in the red-sea mines are appalling and occupational diseases are rampant. Special studies should be initiated on the incidence of industrial diseases and an advisory group of experts should be set-up to assist the labour department in devising ways and means of safeguarding the health of workers in the dangerous trades. Finally, compulsory insurance should be introduced in industries where the incidence of disease is high. (1)

Most of the comprehensive programme of social legislation embodied in the Butler Report has now found its way to the Statute Book. The fact that the performance falls short of the promise is due to the lack of trained staff, insufficient appropriations, the difficulty of enforcing legislation against powerful financial interests, and the solicitude for the fate of small industries and crafts which survive side by side with modern industry. Proposed reforms include legislation to limit the working week and to inaugurate a scheme of social insurance.

Various criticisms have been levelled at the social legislation introduced since 1930. Some reactionary elements take exception to the "speed" at which social legislation was rushed through Parliament. They deprecate the adoption of foreign laws despite difference in the degree of industrial development. They point out that the Legislature is dominated by the landed bourgeoisie which is not chary of initiating reforms so long as they do not apply to agriculture. (2) They complain that the legislation, by burdening industry, will check its future growth, and deprive it of the help of foreign capital.

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(1) That the principle of special risks was recognised by the Government is implicit in the law No. 49/1932 which grants a special indemnity on retirement to train drivers on the ground that they are exposed to dust and variation of temperature affecting their sight and necessitating their early retirement.

(2) Dr. Levi, La loi sur le Contrat Individuel de Travail, Egypte Contemporaine, Vol. XXXII, p. 900.

These protests are the stock in trade of reaction. The last one is, however, more weighty. But it must be pointed out that the standards prescribed in Egyptian legislation are not exacting. Moreover, the level of income taxation in Egypt, which only started in 1939, is very low. However that may be, there is consensus of opinion in Egypt that foreign capital which seeks to exploit the workers is rendering a disservice to the country. It is to the credit of the framers of the articles of association of the international Bank for Reconstruction to state under sub-section (i) of its purposes that the Bank should strive " to promote the long range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members thereby assisting in raising productivity, *the standard of living and conditions of labour in their territories.*

(3) *Labour Organization.*

The trade-union movement in Egyptian industry dates from the early years of the 20th century. Its chequered history starts with sporadic outbursts of militancy among the ranks of the non-agrarian proletariat of the cities. The first recorded strike occurred in 1899 when the skilled sorters in the prosperous cigarette industry agitated against the reduction in piece-rates by 25 per cent and the introduction of labour-saving machinery. In 1903, an early attempt to unite cigarette workers proved abortive and only in 1908 did the skilled workers of the important firm of Matossian succeed in forming a company union, which was followed immediately by an industrial union of cigarette workers in Cairo. (1) The first decade of the 20th century witnessed other strikes among railwaymen and in the printing trades. But the movement was slow to take roots for the following reasons :—

In the first place, the population is predominantly agrarian, and it is notorious that agricultural workers are more difficult to organise than industrial workers, except, as in Australia, where Agriculture is organized on capitalistic lines, or as in Palestine, where immigrants are imbued with socialist tradition and faith. (2) When industry was

(1) Dr. Franz Magnus, Aegypten, Seine Volkswirtschaftlichen Grundlagen und Sein Wirtschaftsleben, p. 218.

(2) This is due to the absence of concentration and the fact that the line of demarkation between workers and small holders is blurred, *cf.* I.L.O. The Representation and Organization of Agricultural Workers. "In England the general mass of agricultural workers except some 32,000 is unorganized " Cohen and Bott, *op. cit.*, p. 220.

introduced in the latter part of the 19t century it took the form of processing plants widely scattered all over the country, while in ports, labour was highly casual. Dockers as well as the large group of building operatives in the towns were mainly drawn from the ranks of Saidi immigrants who travelled northwards during the slack agricultural season and did not, therefore, constitute a mass of settled workers. Moreover, in the processing industries, work was seasonal, lasting from 100 days in the sugar industry to 200 in the case of ginning. Hence concentration and urbanization, the pre-requisites of trade unionism absent.

In the second place, the vast majority of the working proletariat was, and still is, illiterate. Workers drawn from the land had been living under conditions of serfdom reminiscent of the dark ages. Semi-starvation and the prevalence of disease bred a state of resignation. It is significant that the early strikes occurred among the relatively prosperous craftsmen in the cigarette industry and were organized by class-conscious foreign workers who had been familiar with industrial strife in their native countries. Equally significant is the fact that early unions were formed in the printing trade and among railwaymen and such like industries, where a large degree of concentration obtained and the workers were literate and relatively well paid. Unions were also successful among shop-assistants, legal clerks and public utility workers. Other factors delaying the recognition of identity of interests among workers were the differences in the standard of living, race and language and the lack of cohesion between skilled and unskilled workers. The dearth of organizing ability (1), and the ease of breaking strikes by importing black-leg Saidi workers through the ubiquitous labour contractor militated against the success of collective action.

Thirdly, political action against the rising capitalist class was overshadowed by the struggle against British Imperialism. Side by side with students, the mass of workers were at the forefront of the 1919 revolution. Moreover, unions have served as instruments of bourgeois party politics, and many strikes were engineered by the opposition parties to embarass the Government of the day. The presence of

(1) The successful formation of trade unions requires " A legal system not too unfavourable to the growth of voluntary corporations, and a supply of organizing ability competent to overcome the very considerable administrative difficulties inherent in the establishment of associations with any degree of stability ". J. R. Hicks, The Theory of Wages, p. 139.

unscrupulous party lawyers at the head of some unions was responsible for this development which has been recently repudiated by the rising leadership in the unions which is intent on "liquidating" outsiders. The distinguished social reformer Omar Loutfy saw the salvation of the masses in co-operation not in unionism but his movement did so spread among the working classes.

Finally, the labour movement met with stiff resistance from entrepreneurs and from the authorities. Labour leaders have been dismissed for their activities and for inciting and participating in strikes. There were many instances of "yellow-dog" contracts. In company unions managements saw to it that the heads were of the same variety. The Police has worked relentlessly to hinder the growth of trade unions and to protect unions from the infiltration of "dangerous thoughts". During the first world war the movement was suppressed and in the inter-war period severe repressive measures were taken including the use of armed forces to break strikes, the imprisonment, incommunicado, and the deportation of labour "agitators". Even after the constitution of 1923, which guaranteed the freedom of association, the suppression of labour meetings has been a frequent occurrence.

The end of the first world war marks the turning point in the history of the labour movement. The increase in the number of wage-earners, the national uprising, the propagation of ideas enthroning the dignity and rights of man, the modest spread of education, the contact with foreign troops and the impact of the Russian Revolution, all contributed to the birth of class-consciousness. The workers grew critical of the appalling conditions of work, the shortage of food and the fall in real incomes in the progressive inflation which nullified the effects of wage increases. In the wake of the war a strike wave caused some concern to the authorities and a palliative was sought in the formation of conciliation Boards (1), to settle labour disputes referred to them by the Cabinet. It is significant that the trouble was ascribed by the British High Commissioner to widespread bolshevic propaganda and the activities of Italian Socialists. (2) The first report of the conciliation Board (October-November 1920) also alleged the infiltration of bolshevic elements in the ranks of labour.

(1) Order in Council 1920. Originally the Boards consisted mainly of representatives of Law and Order, but they have been recently broadened to include two workers. Their decisions are binding on employers and employed alike. Ministerial decree I.L. Review XLVI, p. 437.

(2) Lacva, G., Egypt Since Cromer, p. 353.

In the early twenties, trade unionism proceeded apace and the number of Egyptian members began to exceed that of foreigners. There are no trustworthy records of the movement, but in 1919 it was reported that the number of unions in Alexandria was 17 including a federation of 24 different trades; Cairo had 21 and Tantah 4. (1) According to a historian of the time, the number of unions in 1922 was 38 in Cairo, 33 in Alexandria, 18 in the Canal Zone and 6 in the rest of the country. (2) Strikes in the larger towns multiplied and increased in intensity and duration although it was impossible at times to be clear whether they were aimed at employers qua employers or at foreign interests in the course of the fight against alien political and economic domination. In 1919 the tram-strike lasted 8 weeks and the strikers won their case for higher wages and more liberal gratuities. In certain cases, protracted strikes seriously affected share quotations. Yet despite its promising beginning the movement seems to have subsided until the thirties when a recrudescence of unrest and protracted clashes with the police were reported. (3) In 1936 the Economist commented on the development of class-consciousness "in no uncertain way" and reported a strike wave at the Sugar Mills, in transport and in the textile mills.

Early attempts at federation have been as unfruitful in Egypt as they were in England at the time the G.N.C.T.U. was established. The first attempt was made in 1921 when delegates representing over 20 unions gathered to plan a general federation. Lack of organizing ability, mutual distrust and a clash over the contribution to be paid to the treasury of the federation led to deadlock. A second attempt in 1930 came to grief at the "Iron" hands of Sidky Pasha, the late premier. There were also various attempts at the formation of a labour party but they came to nothing. The last attempt, under the leadership of Prince Halim threatens to cause a rift in the World of labour as the intentions of the buccaneering prince are rightly suspected by the majority of workers. Yet the general disgust which the rising generation feels for the existing political groupings will inevitably lead to the formation of a new party to work out plans of social regeneration

(1) Department of Overseas Trade, Economic and Financial Situation in Egypt, 1919.

(2) George Young, Egypt, p. 298. These were the unions recognised by Conciliation Boards.

(3) Department of Overseas Trade, Economic Conditions in Egypt, 1938.

and to represent the interests of the masses, as the present parties have ceased to reflect the present real forces of Egyptian Society. The following table shows the numerical strength of trade unions registered with the Ministry of Social Affairs at the end of November, 1945. (*)

TABLE IV.—TRADE UNION IN EGYPTIAN INDUSTRY

Industry	No. of Unions	Enrolment
Vegetable foods	48	11,471
Animal foods	8	1,882
Drinks	5	893
Tobacco	6	2,652
Chemicals	7	1,046
Paper and its derivatives	2	278
Printing, bookbinding, etc.	8	2,277
Rubber	2	179
Jewellery	2	267
Leather	17	3,186
Textile	46	39,494
Clothing	16	2,630
Cleaning of clothes	7	1,536
Metallurgy	23	4,627
Wooden implements	9	2,950
Electricity and water supply	7	1,207
Construction materials	11	1,743
Building	28	1,650
Mining and oil refining	11	5,115
Transport	17	19,727
Boat making and repairing	1	92
Other industries	16	2,645
Commerce, etc.	94	20,197
Professions	15	1,252
Public services	12	3,454
County council employees	5	770
Personal services	16	5,115
	439	**139,546**

(*) By courtesy of the Egyptian Labour Attaché in London.

It will be seen that the figure of enrolment in industry and mining was approximately 90,000. Compared with the number of workers in the industrial census of 1942 (approximately 300,000) it shows an increase in membership which could be traced to the encouragement the Wafdist Administration of 1942–1944, the increase in the tempo of industrialization and the prosperity of the skilled group of artisans and skilled workers. It is apparent that progress was made in some groups, such as textiles and transport while small scale industries have lagged behind. Yet to conclude that trade-unions are firmly launched simply on the strength of published statistics would be erroneous for various reasons.

In the first place there is the understandable tendency of unions to boost up their membership and to retain members' names on the register long after they ceased to pay subscriptions. The legal minimum requirement of 50 members does not favour exact recording of enrolment figures.

Secondly, the predominant type is the company union controlled by the management through the appointment of puppet leaders. This policy is helped by the action of successive reactionary Governments which are in the habit of sending progressive labour leaders to gaol. So long as the basis of organization remains the company union and no progress is achieved in attaining larger units through amalgamation and federation there can be no effective labour movement.

But third and foremost is the weak financial position of the majority of unions, which reduces their staying power in the event of industrial disputes. (1) In Professor Hicks' terminology (2) one would say that the expected costs of concessions to unions would nearly always outweigh the expected cost of the strike in the entrepreneur's judgment. Unions cannot hold on long because of their meagre war chest. Wages are low, and regular subscriptions to union funds are the exception. Moreover, out of their poor resources they provide unemployment relief, burial expenses and occasional loans to workers in order to win their allegiance, all of which are functions which do not devolve on unions in industrially advanced countries. Apart from the unions' inability to provide strike-pay, workers have no personal savings to tide them

(1) The same is true in India, cf. R. Seva Rao, The Industrial Worker in India.

(2) This argument is based on Hicks' theory of industrial disputes, cf. J. R. Hicks, The Theory of Wages, pp. 136–137.

and their large families over a protracted stoppage of work. Finally, owing to the absence of effective limitations on entry, non-union labour from the ranks of the unemployed is always available to break up strikes with the help of a not too sympathetic administration. Hence, as the expected degree of stoppage is not considerable, employers are apt to resist wage demands.

It is no wonder that trade unions have not been able to substantially affect wage rates for the majority of workers. There were, however, some notable successes in the "sheltered" and monopolistic industries. There, the low elasticity of demand enables employers to shift wage increases on to the public. Thus, in transport undertakings in the Cairo area, fares were raised after the first war and during the recent one to allow wage increases. Concessions were also easy to exact from employers during the recent war owing to increased profits and the fear of the effect upon them of a long strike. Except in the cigarette industry, there is little evidence of obstructive tactics by trade unions leading to the introduction of large scale machinery.(1) Even here the decline in world demand for high grade hand-made cigarettes coupled with an increase in the local demand for the mechanically mass produced brands, may have been the real cause and not the maintenance of wages at above equilibrium level by the unions.

It has been stated earlier that the State did not look with favour upon the growth of trade unionism. Its coercive power has been repeatedly used to break strikes especially those directed against foreign concerns protected by the capitulations. Until 1942, no steps were taken to give legal recognition to workers' association. Moreover, the strike wave of the early twenties led to the stiffening of the provisions of the Penal Code relating to strikes and picketing. The important group of public utility workers were prohibited to strike without advance notice. The Law No. 2/1921 prohibited the transference of salaries and wages (Cession des salaires) to syndicates, trade unions and other professional organizations and the preamble of the act criticized the formation of unions in the absence of legislation on the grounds that such irrevocable transference on the part of the worker constituted an alienation of his freedom, and was, therefore, contrary

(1) Dr. I. G. Levi, Article in L'Egypte, published by the Institut Français d'Archéologie Orientale, p. 283.

to public order.(2) In 1935 the director of the Labour Office suggested that strikes declared without adequate notice and before being submitted to conciliation should be declared illegal.(3)

The severe blow to the finances of the unions administered in 1921 and the stiffening of the law relating to picketing are examples of partisan legislation which go a long way towards proving the Marxist thesis that the machinery of the State in Capitalist Society is run for the benefit of the Bourgeoisie. Nor was the attitude of the judiciary any more progressive as may be judged from the following incident. When in 1938, a number of workers on strike were brought for trial the Learned Judge criticized the crazy action of the ungrateful weavers towards their benefactors and urged them to sacrifice their personal interests to serve their country and to eschew dangerous thoughts and influences alien to Egypt's tradition, her religion and nobility of character. The eminent judge cited the example of Japan, whose industrial greatness rested on "low wages and long hours" for the workers to emulate.(4)

The Unions had a precarious legal existance until the promulgation of the Law No. 85/1942.(5) This law sanctions the formation of trade unions in industry and commerce provided members are engaged in the same trade or occupation, or in similar or allied trades and occupations or in trades contributing to the manufacture of the same product (Article 3). It authorizes collective bargaining (Article 16) and declares null and void the practice of yellow-dog contracts. Yet despite the fact that the new act represents a step forward, many of its provisions suggest that the state is still suspicious of the movement and fearful lest it might be used as a political weapon for subversive activities. The following are the glaring defects of the new law as it now stands.

In the first place, large sections of the working class are debarred from forming trade-unions. These include civil servants and

(2) Egypte Contemporaine, Vol. XXII, Chroniques Législatives. An excellent analysis of the law relating to Trade Unions in Egypt is to be found in Dr. H. KHALLAF's essay "Trade Union in Egypt", in Arabic.

(3) Labour Office, Report 1935, p. 20.

(4) Cited in A. EHAY, L'Industrie du Coton en Egypte, p. 184.

(5) The business world wanted a law regulating the unions, which "as..... then constituted did not inspire confidence". Department of Overseas Trade, Economic Conditions in Egypt, 1937, p. 159.

municipal employees, agricultural labourers[1] and nurses. Domestic servants may only form restricted unions deprived of the right to strike and the power to interfere between master and servant. Such unions may only perform the functions of provident societies and social clubs (Arts. 1 and 2).

Secondly, the unions are subjected to close state supervision and any meeting for the purpose of forming a union must be brought to the notice of the police. General Meetings also require advance notice to the authorities. The provision that the authorities are precluded from interference unless a meeting is held contrary to public order is an ominous proviso which can be used as a cloak for unwarranted repression (Article 20). Subject to judicial review, the Minister of Social Affairs may deny registration to a union (Article 15). He may dissolve a union if, in his judgment, it contravenes the law. Moreover, he has wide investigatory powers over accounts, and the law determines the minimum percentage of total receipts to be allocated to social services by any union (Article 6).

In the third place, trade unions are debarred from political activities. Thus, they may not subscribe to party funds or help labour candidates to stand for parliament (Article 17). Such sweeping restrictions severely hinder the rise of a truly representative labour movement. Finaly the law allows the formation of federations of trade unions in the same craft or profession and in industries producing a single commodity (Article 26). But no national trade union federation embracing heterogeneous industries is tolerated. Hence, there is no central platform to voice the grievances and aspirations of the mass of industrial workers such as is provided by the T.U.C., the C.I.O. or the C.G.T. and to act as Central reserve supplementing the funds of any isolated union in the event of a strike. It is noteworthy that the elite of the trade union movements take particular exception to this provision and one of their first objectives is to secure its early repeal so that they may be placed on equivalent footing with the employers who are allowed to form national federations.[2] They should also strive to extricate the unions from the close supervision of the police

(1) The fact that the legislature is dominated by agrarian interests accounts for the fact that agricultural workers are precluded from forming trade unions.

(2) Vide pamphlet by Mr. S. Israeli, The Worker's point of view, 1945, in Arabic.

CHAPTER X

Government Aid to Industry

In the inter-war years, Egyptian industry received state-aid in various forms, of which tariff protection was the most important. Other forms of encouragement were forthcoming, but only to a minor extent. In this chapter it is proposed to discuss these two topics in succession and to indicate the lines on which further state action should proceed.

(1) *The Tariff.*

Throughout the greater part of the 19th century, Egypt's customs regime was the same as that of the Ottoman Empire and as a dependency, Egypt was bound by the commercial conventions entered into by the Porte. The tariff was purely fiscal in character.(1) Import duties were levied at the uniform rate of 8% ad valorem, with few exceptions such as sugar, timber and alcohol. Export duties were fixed at one per cent, and the drawback rate, on goods exported within six months of entry into the country, was 7%. Unconditional most-favoured-Nation treatment was enjoyed by all countries. Starting from 1884 Egypt concluded a series of commercial conventions but the rates remained substantially the same, with only minor modifications. Thus, certain commodities, such as fertilizers, were imported duty free, while coal and livestock were taxed at a reduced rate; on the other hand, the sugar duties were slightly increased. In 1916, the rates were raised to meet increased state expenditure during the war, but were restored shortly after the cessation of hostilities. In the absence of income or inheritance taxes, customs revenue was the most important single item of Public income. Moreover, the bulk of customs revenue, more than 50% in many years, came from tobacco, the only elastic item in the schedule.(2)

The limitations on Egypt's fiscal autonomy embodied in the tariff regime and in the capitulations, were higly resented by the rising nationalist movement. The absence of protection was considered one of the main stumbling blocks in the path of industrialization by all

(1) Full details of the tariff regime are given in the Annual Survey of Foreign Trade, 1933.

(2) For the financial year April 1, 1936 to March 31, 1937 customs gross receipts were L.E. 11,208,862, of which approximately L.E. 3 million came from tobacco.

the business men who submitted written evidence to the Silky Committee of 1917.(1) The latter recommended that protection should only be granted if the industries concerned could eventually withstand foreign competition. Moreover it recommended the reduction of duties on goods of especial importance to agriculture and industry, and the abolition of export duties.(2) After the first World War agitation for tariff "reform" was fanned by popular enthusiasm and the desire to break the "shackles on Egypt's fiscal autonomy". This agitation together with the overpowering need of the Government for additional funds to meet rising expenditure, culminated in the appointment in 1926 of a commission "to co-operate with the Economic Council in the study of tariff revision". Three foreign experts were invited to assist in the preparation of the new tariff, and a special bureau was established to examine the demands of interested parties.

The interested party par excellence was the Federation of Egyptian Industries. In 1926, it addressed an appeal to both houses of Parliament, and in 1927 a memorandum was sent to help the advisory group of experts in the task of "scientific tariff-making". This memorandum and the other publications of the Federation and its spokesmen contain, beside the most blatantly mercantilist dogmas, some indications as to the line of policy acceptable to the authors. They advocated a double tariff as a bargaining tool, with a much higher "general" tariff than the one contemplated by the authorities, "without excessive pre-occupation with the interests of consumers." In their opinion an efficacious tariff must be compensatory, i.e., it must cover the difference between the cost of production at home and the prices ruling in the world market. On the constructive side, they urge a drastic reduction in the duties on raw materials, semi-finished goods and machinery.(3)

The last of the series of trade agreements concluded with foreign countries having expired in 1930, the new tariff was ushered in the teeth of opposition from certain powers, including Great Britain, which was shortly to embark on a policy of protection, on the grounds that

(1) *Cf.* evidence by the sugar, alcohol, oil and cement companies in the report of the Committee on Industry and Trade.

(2) *Ibid.*, pp. 89 and *f.f.* see also p. 162. (*See* Note 1 above.).

(3) La Réforme Douanière en Egypte, Egypte Contemporaine, Vol. XVIII, L. Ganem & I. G. Lewi, Observations Générales sur le Nouveau Tarif Douanier". *Ibid.*, Vol. XXIII.

the abrogation of commercial conventions automatically restored the status quo ruling before 1884 in relation to the capitulatory powers, and therefore, the Egyptian Government could not alter the tariff without their consent. The new tariff, while still predominantly fiscal in character, afforded some protection to certain branches of agriculture and industry. The 8% ad valorem duties were replaced by specific duties which weighed lightly on raw materials and coal; the rates were a little higher (6-8%) on semi-manufactured goods, and still higher, ranging at first from 15-30% on manufactured articles. Thus, the duties on oil for soap manufacturing were reduced while those on edible oil raised. Another principle which may be gleaned from the relation of rates inter-se is the variation of the rate of duty according to the degree of transformation. Thus the tax on certain raw materials such as wheat was substantially below that on flour, in order to encourage grain milling. Moreover, some raw materials such as hides were subjected to an export tax to reserve the available supply for local industry. (1)

Many writers and statesmen have been in the habit of quoting the new tariff rates as conclusive evidence in support of the view that they are low both absolutely and relatively to those ruling in other countries. Now, the concept of the height of the tariff is one of the most difficult and elusive in economic theory. A given rate of duty may be highly effective with a particular constellation of elasticities of supply and demand, while, under another set of circumstances, its effect may be negligible. (2) As will be shown later, the Egyptian tariff was in some cases highly protective. On the other hand, to conclude that the tariff was high simply by reason of the doubling of the ratio of customs revenue to the value of imports between 1929 and 1931, ignores the fall in world prices and the fact that half the revenue is derived from duties on tobacco, the cultivation of which is prohibited by law.

During the thirties, there were many instances of upward revision of tariff rates accompanied by much uncertainty and rumour mongering. In many years, speculation as to prospective tariff changes affected the rate at which goods were withdrawn from bonded warehouses. There were successive increases in the import duties on sugar between 1930 and 1932; in the latter year an additional duty of 1% ad valorem.

(1) In the 19th century, the rise in world demand for cotton seed starved the local oil industry of necessary raw materials.

(2) G. HABERLER, Theory of International Trade, pp. 255-259.

was imposed on all imports and the duties on bedsteads were raised from 15 to 20%. In 1933, the tariff on cotton piece goods was raised to counteract the continuous fall in C.I.F. prices, and in 1936 silk and rayon hosiery were taxed more heavily. In 1937, there was a 50% increase in the tax on boots and shoes and in 1938 the minimum duties on chocolate were raised to check the import of the cheaper varieties. In the same year, the duties on heavy grey and white goods and on heavy printed and dyed fabrics and cobot were doubled. During the period sectional interests were active in the lobbies and the establishment of a new firm invariably gave rise to a clamour for protection for the nascent "industry", regardless of its ability to supply the local market.

Some of the new duties, while applicable to all imports irrespective of origin, fell with particular severity on certain countries. For example, the duties on heavy cotton goods hit Japan, India and Italy more than others; while that on cheap shoes affected particularly imports from Czechoslovakia. Moreover, overt discrimination was practised on economic and political grounds. In 1931, there were allegations of "Russian dumping" followed by the imposition of a 100% surtax on goods of Russian origin where similar goods were produced or could be produced in Egypt. The measure was ascribed in Moscow to "political pressure from England after the accession of the Conservatives to office in 1931".(1)

Partly to placate the vociferous interests in Lancashire which were urging the need for placing Anglo-Egyptian trade "on a more satisfactory basis", and partly to provide additional protection for firms producing the coarser varieties of cotton, the Government unilaterally terminated the commercial treaty with Japan, and, in September 1935 applied a 40% ad valorem depreciated currency surtax to cotton and rayon goods of Japanese origin. The new anti-exchange dumping duties had striking effects on imports by causing a drastic reduction in the share of Japan and a rise in imports from Britain, especially after the application of sanctions to Italy. The privileged position of Britain was soon to be challenged by Italy, but it was not considered politic, in view of the strained international situation, to counsel the extension of discriminatory duties to Italy. The following table shows the distribution of Egypt's imports of cotton piece goods 1935-1937.

(1) Soviet Year Book of Foreign Trade, quoted in V. Coquelle, Soviet Trade, p. 39.

In million sq. metres

Country of Origin	1935	1936	1937
Japan	142	71	20
United Kingdom	30	51	43
Italy	—	16	67
TOTAL IMPORTS	193	170	170

Finally, there were other forms of protection in operation or under discussion during the thirties. The action of the British Exchange Equalization Fund in maintaining the value of the £ at below equilibrium rate probably led to the under-valuation of the Egyptian pound. Egyptian producers might thus have enjoyed some protection vis-à vis producers lying outside the sterling area, e.g. the Gold Bloc, the gold value of whose currency was not reduced. The subject of quantitative restrictions was debated in 1935 when the British Trade Mission to Egypt put forward a suggestion for the imposition of quotas on textile imports. The share of each exporting country in the global quota of any year was to be determined by its purchases of Egyptian raw cotton in the three preceding years.(1) Egyptian negotiators secured the insertion of an article providing for the downward revision of quotas pari-passu with the expansion of home production. This step towards bilateralism in trade was not sanctioned by the Senate and had to be dropped.

Table I, although based on inaccurate data culled from questionable sources, gives some idea of the growth of local production in the years following the tariff. In the first place, already established firms in the textile, cement, sugar and beadstead industries expanded rapidly. After the enforced reduction of output in the twenties in the face of the competition of foreign goods backed by subsidies, export guarantees, exchange depreciation and freight rebates. Firms began to work nearer to capacity once imports became costlier, although the effectiveness of the tariff was in some cases reduced owing to the fallin

(1) The Economist, November 5, 1938.

C.I.F. prices during the Great Depression. Between 1931 and 1934, production at the two mills of Mehalla and Alexandria rose from 6 million lbs. of yarn and 14 million square yards of cloth to 24 million lbs. and 38 million square yards respectively, while the quantity of cotton consumed was more than trebled. The percentage of local production to total consumption of piece goods rose from 3.2 % in 1930 to 24.3 % in 1935, despite the rise in local consumption. The capital of the two concerns was more than trebled between 1930 and 1940. Moreover the contraction of Japanese imports gave a new lease of life to hand loom weavers: the same tendency was also observable in other industries. However, in the case of beer, the rise of import and excise duties, led, owing to the high elasticity of demand in a moslem community, to a reduction in both import and local production. (2)

Apart from the expansion of existing firms the tariff called forth new investment in industries existing prior to its imposition. Thus we find that most of the smaller textile firms were established after 1930, and especially since 1937. Moreover, it is quite obvious that many firms were started in the late twenties in anticipation of tariff "reform". On the other hand, high "revenue" duties led to the introduction of new mechanized industries, as when the differential charges on wheat and flour caused large investment in modern steel roller mills. Sometimes the new firms were the result of "direct investment" by foreign financial interests which saw in the decentralization of manufacture a method of conserving markets.

It must be noted that varying elasticities of supply between "industries" led to different response to tariff rates of approximately equal height. Thus, the elasticity of supply of the coarser varieties of soap and cotton piece-goods was high and production expanded rapidly and the same was true of the cheaper brands of cement, blankets, anti-septic cotton, playing cards, boots and shoes, and chocolates. But it was not until the late thirties, that progress was achieved in the production of the finer counts of cotton. A perusal of the reports of the British Commercial Secretary in Cairo between 1925

(2) Between 1923 and 1929, imports and production averaged 57 and 71 thousand hecto-litres. The figure for the period 1930-1936 dropped to 38 and 51 respectively. In the same way, the excessive taxation of tobacco resulted in the reduction in imports from an average of about 7 million kilos in the period 1920 to 1927 to about 3 million kilos in 1933-1936.

TABLE I.—INDUSTRIAL PRODUCTION, 1917–1945.

Year	Cotton Yarn ,000 K.G.	Mechanical production of cotton piece goods ,000 sq. yards.	Cement ,000 tons	Beer ,000 hectolitre	Oilseed pressing ,000 tons	Soap ,000 tons	Sugar ,000 tons
1917	—	9,000	24	—	—	—	79
1920	—	—	—	—	—	—	67
1925	—	10,000	49	—	—	—	96
1926	—	—	50	64	—	—	72
1927	—	—	56	71	—	—	91
1928	—	—	61	74	—	38	109
1930	—	—	196	—	—	—	123
1931	2,962	20,000	237	—	41	—	147
1932	6,306	24,500	252	43	—	—	170
1933	8,218	29,000	274	45	—	—	154
1934	10,897	38,000	270	50	—	—	137
1935	11,855	34,500	310	—	—	—	132
1936	16,251	55,000	300	—	—	45	138
1937	17,262	66,500	320	—	51	—	160
1938	20,963	110,000	365	—	—	—	162
1939	25,805	159,500	353	—	—	—	159
1940	28,132	185,000	362	—	—	—	175
1941	32,500	200,000	390	—	90	—	158.
1942	—	—	420	235	—	—	190
1943	—	—	323	—	—	—	—
1944	—	—	418	—	—	—	—
1945	—	—	425	—	—	60	190

Sources : A. ERAN, L'Industrie au Coton en Egypte ; Journal of the Ministry of Commerce and Industry ; Annuaire Statistique ; Department of Overseas Trade, reports ; Report of the British Trade Mission to Egypt, 1930.

and 1937 shows the gradual growth of home production of textiles and its impact on imports. In 1925, we read that the local cotton industry was still in its infancy and could not be said to compete with imports. Local competition appeared as a factor to contend with in 1933. In 1937, it was stated that local manufacture had acquired a virtual monopoly in "heavy greys".

The process of industrialization has also been marked by a greater degree of processing of locally produced raw materials both for home consumption and for exports. Thus the home consumption of ginned cotton rose from 78,000 cantars in 1931 to 706,000 cantars in 1939 and the quantity of cotton seed crushed locally increased from 1,484,082 ardebs in 1932-1933 to 2,142,000 ardebs in 1938-1939. Moreover, there was an increase in the production of minerals for use in the expanding chemical industries. This sometimes involved the tapping of sources which, owing to distance from ports, would not have been exploited for export, e.g. magnesium sulphate and ammonium sulphate from the oases and caustic soda from the Natroun valley and Hosh Eisa.

Table II shows the course of imports of some of the major commodities since 1934. The average figures for the two years 1928 and 1929 are included for the sake of comparison. But, in attempting to appraise the economic effects of the various protectionist devices from an examination of these figures, it must be borne in mind that during the thirties the long-range downward trend of cotton prices was aggravated by the cyclical fall after 1929. The value of raw cotton exports fell from L.E. 45 million in 1928 to L.E. 24 in 1930. As cotton and its derivatives account for over 70 % of the country's exports, it was no wonder that Egypt's purchasing power was drastically reduced. This reduction continued during the thirties as the value of exports, adjusted to changes in the value of money by the application of the wholesale index number, fell from an average of L.E. 40 million in 1926-1929 to L.E. 31 million for the period 1930-1933. Hence, the reduction in imports in the latter period cannot be solely attributed to the tariff. Moreover, in considering the table, it must be realized that the choice of 1928-1929 as a base period is not a particularly happy one as the realization of an impending tariff change was preceded by a rush of imports. Finally, it must be remembered that during the thirties the population increased by a little over 1½ millions.

TABLE II.—CHANGES IN EGYPTIAN IMPORTS SINCE 1930—,000 omitted

Article	Unit	Average 1928–1929		Average 1934–1936		Average 1937–1939	
		Quantity	Value	Quantity	Value	Quantity	Value
			L.E.		L.E.		L.E.
Manufactured Goods:							
Flour of wheat	K.G.	20,000	2,533	3,500	36	3,000	34
Sugar (refined)	Tons	70	996	—	—	—	3
Beer	—	—	183	—	77	—	85
Cement	M.T.	260	530	67	89	42	75
Common soap	K.G.	9,036	364	3,700	102	3,030	96
Matches	—	—	276	—	38	—	35
Furniture	—	—	248	—	36	—	35
Natural silk fabrics	K.N.	—	994	277	171	216	226
Artificial silk fabrics	—	—	—	1,507	519	500	258
Cotton thread	—	—	—	—	163	—	122
Cotton articles	—	—	—	—	277	—	191
Cotton piece goods	K.N.	—	6,402	24,000	3,200	16,000	2,750
Footwear	Pair	1,338	384	703	55	452	49
Raw Materials for Industry:							
Oil for soap making	K.G.	2,000	79	12,000	205	12,000	204
Raw sugar	K.G.	nil	nil	—	—	80,000	511
Coal	M.T.	1,219	1,612	1,386	1,497	1,521	2,136
Coal-tar dyes	K.N.	194	34	257	73	346	112
Natural silk yarn and thread	K.N.	—	187	426	208	461	283
Artificial silk yarn and thread	K.N.	—	89	996	124	1,851	233
Cotton yarn	K.N.	—	—	663	89	735	108
Producers Goods:							
Motor vehicles	—	—	—	—	748	—	933
Engines	—	—	—	—	169	—	254
Generators and transformers	—	—	—	—	85	—	105
Tyres and spare parts for cars	—	—	—	—	205	—	350

Source: Annual Survey of Foreign Trade for the relevant years.

The analysis of imports reveals the process of gradual elimination of inferior commodities of mass consumption, e.g., sugar, footwear, furniture and bedsteads, common soap, household goods and cotton textiles of the heavy varieties.(1) The progress realized during the recent war points out to a probable decline in imports of paper, standardized chemicals, medicaments and fertilizers. The substitution of home-produced goods for imports is more marked in the case of Egypt because the urge to industrialize occurred during the two wars when imports were difficult to come by, and during the Great Depression when balance of payment difficulties necessitated the curtailment of imports.

However, the downward trend did not affect the better varieties, which minister to the needs of the rich, although the imports of these commodities were also hit by the depression and the general impoverishment,(2) which resulted in the substitution of cheap home-spun articles for high quality imports. Further and more rationally planned industrialization will, it is hoped, raise the general purchasing power and diversify the demand for manufactured goods of all kinds, including imports of better quality goods, with a high income elasticity of demand. The urbanization engendered by the expansion of industry will lead to increased imports of electrical apparatus, radio sets, films and other commodities favoured by town-dwellers.

Other changes in the composition of Egypt's foreign trade can also be discerned from the table. There was an increase in the import of industrial raw materials, and semi-finished goods. Thus, the expansion of the soap industry led to an increase in the imports of "oils for soap manufacturing", caustic soda and other chemical ingredients. Expansion in the tanning industry resulted in increased imports of hides, leather and dyestuffs; that of the sugar industry resulted in increase in imports of raw sugar. Similarly, there was an increase in the import of yarn for textile manufacturing, wires for bedsteads, coal for electricity generation and for direct use. Moreover, mechanization has resulted in increased imports of internal

(1) Where the 100 sq. metres weigh more than 40 kilos.

(2) This might have been one of the reasons for the substitution of cotton for woollen and silk piece goods, and for the encroachment of cheap Japanese goods on a market where Lancashire had been supreme.

of Egyptian products. Moreover, the Governments would not favour the first alternative i.e., the abolition of tariffs whilst the revenue customs duties play an important part in their finances.

(2) *Other Forms of State Aid.*

Since the advent of a purely Egyptian Administration, there have been attempts, half-hearted and piecemeal though they were, to extend some assistance to local industries. It may be convenient to discuss the measures taken under separate heads.

(a) *General Services.*—The shortage of manufactured goods during the first World War prompted the Government to appoint a Committee to study the prospects for industry and trade. Upon the recommendations of the committee, the Department of Industry and Trade was established in 1920 and its activities have expanded especially since its conversion into a full-fledged Ministry. It conducts research and publishes reports of interest to industrialists. It has a staff of specialists to advise small manufacturers and to help modernize their plant and methods of production. It has established pilot plants or model factories for carpet-making, wool-weaving, dyeing, tanning and glass manufacture, and it helps small manufacturers by offering modern machinery for sale at reasonable prices on the instalment system. The other activities of the Department include publicity and the maintenance of showrooms. Under this category may be put the cost of scientific research conducted in the two Universities and the subsidies to the Fouad Institute of Scientific Research.

(b) *Railway rebates.*—Egyptian State Railways grant substantial rebates to local producers. These benefit in particular firms using large quantities of raw materials and bulky fuel. High freight rates from ports to inland destinations afford some protection to local industries, while lower freights on shipments to the ports enable local products to compete with imports in the vicinity of seaports and abroad.

(c) *Tax Concessions.*— In 1925, the new Department secured the repeal of the 4% excise duty on mechanically produced cotton goods.(5) Imports of machinery and spare parts by the Misr group have been exempted from duties, and export duties have been reduced on a variety

(5) Department of Commerce and Industry, Annual Report 1924-1925, p. 20.

of locally made goods. Finally, the Department was instrumental in reducing local rates imposed by impecunious municipalities on local firms.

(d) The grant of monopolies as in the case of sugar and alcohol.

(e) *Subsidies.*—Owing to the special structure of the country, state subsidies have been granted almost exclusively to agriculture. They have taken every conceivable form from direct and indirect loans, conversion of mortgage-debts, intervention in produce markets and export subsidies and guarantees. Direct aid to industry in the form of subsidies has been conspicuous by its absence, except on rare occasions. Thus, in 1905 the State came to the assistance of the Sugar Combine, and in 1940 the debacle of the Bank Misr was averted by a large loan from public funds. Only two cases of direct subsidies to industry in normal times are on record. The first occurred in 1931, when the Government granted a subsidy, based on the amount of cotton consumed, to the two large cotton mills to enable a dividend of 5% to be paid on share capital; moreover, large quantities of cotton used in the manufacture of medium counts of yarn were sold to the two companies on extended credit at a discount of P.T.20 per cantar, as the Government was then anxious to get rid of stocks accumulated as a result of the disastrous policy of intervention in the cotton market.(1) The other example is that granted to the Société Misr pour le Cinéma which receives a share of the betting tax.(2)

(f) *Loans.*—The provision of loans to industry is discussed elsewhere. It is significant to note that guarantees of interest and principal have only been practised once, when the Government guaranteed a loan of L.E. 500,000 to a large building company.

(g) *Preference in Government contracts.*—Last but by no means least, is the preference given to local industries in Government adjudications. The importance of this measure lies in the fact that the Government and its enterprises are large buyers of manufactured goods of all descriptions. The process began early in the twenties by attempts to stop the then prevalent discrimination against Egyptian goods. A circular of the Ministry of Finance urged Government

(1) Department of Overseas Trade, Economic Conditions in Egypt, 1933.

(2) Mention must also be made of the subsidies granted to the two steam navigation companies and to Misr Airworks.

Departments to remove from tenders any specifications likely to lead either directly or indirectly to the exclusion of home products. The insistence on foreign brands and trade marks and the listing of requirements which could be satisfied by foreign goods only were discouraged. With a view to giving local producers an initial advantage, the system whereby imported goods were invoiced to the various departments at C.I.F. prices ex-customs duties was discontinued, and duties were added to foreign quotations before comparison with local tenders. In 1924, the buying departments were exhorted to favour local goods when their price and quality were comparable to foreign goods. In 1939, preference in Government tenders was given to local goods even when their price exceeded that of imports of similar quality by 10%. Moreover, it was decided that no foreign tenders should be resorted to whenever goods and services could be procured locally.(1)

(3) *Prospects.*

The above analysis shows that, except for the tariff and the preference given to Egyptian commodities in Government requisitions, state aid to industry has been negligible. The initial effects of protection, by raising the marginal efficiency of capital, have undoubtedly been favourable to the growth of industry. Hence entrepreneurs, even in those branches which have passed the infant stage, are clamouring for more protection(2) under the pretext that the effects of the present specific duties is now reduced by the high price of imports. Textile producers are urging the continuation of protection because of the fact that they are forced by law to use high quality Egyptian cotton, while their Japanese and Indian competitors use cheaper cotton. Moreover, many industries, started under the artificial stimulus of war-time scarcities, are demanding additional protection, as the resumption of trade on anything like the pre-war level would threaten them with complete extinction.

* Now, "in an agricultural economy the difficulties of beginning may make an industrial firm's private marginal product significantly lower than its social marginal product, and to make up the difference,

(1) These measures were at first, ignored; but in recent years, pressure from the Federation of Egyptian Industries has secured their strict application.

(2) Comment on the Speech from the Throne, L'Egypte Industrielle, 1945, Vol. II.

protection or the payment of subsidies is economically justifiable."(1) Moreover, owing to the plight of agriculture and the continuous growth of population on the land, it is necessary for the Government to help accelerate the rate of growth of private industry. But it is submitted that state aid should be granted in a less haphazard way. A special board should be set-up to examine the claims of industry and to ensure that antiquated techniques, high costs and managerial inefficiency are not perpetrated behind draconian tariff barriers. The more so that the effect of existing protection might be nullified, or partially neutralized, by rising costs under a scheme of all-round protection. To allow some of the war-time industries to survive would be disastrous to the interests of consumers, whereas their extinction would not harm the entrepreneurs concerned, as their capital has been turned-over many times since their inception.

In any future policy towards industry protection should be resorted to sparingly while more reliance should be placed on the type of aid which compensates the entrepreneur for the absence of external economies. Attention should be devoted to the extension of technical education and assistance, the cheapening of production costs through the provision of cheap credit, interest guarantees, the establishment of trading estates and the advancement of research on the use of local raw materials. Moreover, there is a strong case for lower transport costs and for reducing the very high excise duties on manufactured articles which raise marginal costs and restrict production; the remission of import duties on machinery, spare-parts and essential raw-materials would be a potent incentive. There is also a strong case for subsidizing select industries, including the important small-scale labour intensive sector, to raise the productivity of labour therein by supplying them with power and tools and to help market their wares. Finally, the centralization of Government buying would enable the placing of long-term bulk orders with Egyptian firms, thereby helping reduce the uncertainty they face.

It is proposed to say a few words about the taxation of industry in Egypt. Until their abolition in 1937, the Capitulations conferred upon foreigners far reaching privileges such as entities exclusively extra-

(1) De Scitovsky, "A Reconsideration of the Theory of Tariffs", Review of Economic Studies, Vol. IX, p. 100.

territorial jurisdiction. No legislation affecting their interests could be enacted without the concurrence of the General Assembly of the Mixed Courts. The Capitulations were interpreted in such a way that foreigners could not be made to pay a new tax or an increased rate of an existing one without the consent of the capitulatory powers; and the refusal of anyone of them was sufficient to jettison any proposed fiscal measure. The 1936 treaty between Great Britain and Egypt declared the Capitulatory Regime incompatible with Egypt's independence, and His Majesty's Government pledged its support in securing its repeal. At the Montreux Conference of 1937 the privileges and immunities of foreigners were swept away, and the Government regained the right to initiate fiscal legislation applying to them without prior consultation with their governments.

Under the capitulations it was found impossible to levy income taxes of any kind and the first attempt to tax profits from commerce and industry came in 1939. It was not a general income tax on the British pattern with a standard rate, a surtax rate and a scale of exemptions, but a series of taxes on various sources of income; and no attempt has yet been made at progression on the basis of the total income of the recipient. Since 1940, the rate of the tax on commercial and industrial profits has been 13.20%. Moreover, during the war there was an exceptional profits tax, to be repealed within one year of the signature of the peace treaties. Though the tax is steeply graduated and reaches 75% on that portion of the exceptional profits which exceeds 70% of the basic figure, there are liberal provisions for reserves to meet any depreciation in the inventory value of goods bought after January 1940 and for the amortization of buildings, plant and machinery. Firms located in the Alexandria area are, moreover, liable to double taxation in that they pay the municipality 2.5% of the industrial profits tax and 5% of the E.P.T. payable to the central government.

While the present rates of taxation of industrial profits are not high it must be remembered that, apart from the land tax, income from agricultural exploitation is not assessed for income tax. This situation should be remedied, and care should be taken not to impose additional burdens on industry at this early stage. Remission of taxes on industrial profits in the case of new firms may be a valuable psychological stimulus to industrial investment. Internal double taxation of industry should be abolished and grants-in-aid from the Central Government should make up for the deficit in local government finance-

If the country favours a policy of attracting foreign capital on a large scale, the vexed problem of international double taxation should be solved by the imposition of a lower rate on industrial profits accruing to residents abroad. Finally, the exemption of government securities from all taxation present and future should be discontinued so as to increase investment in industry and tr ade.

A very promising field of state-aid which it is proposed to discuss at some length is the provision of cheap power to industry. Hitherto, imported coal has been the main source of fuel and high costs have naturally tended to retard the growth of industry, especially where fuel is an important element in total costs. The unit cost of electric power in Egypt is high on account of monopoly and the small scale utilization of existing capacity. Hence, high costs are inducing industrial firms to instal their own power generating plants, and the million H.P. installed in Egypt is to be found in 25,000 units (average 40 HP) (1). In the last few years the intensive exploitation of oilfields in the Red Sea areas has resulted in some substitution of oil for coal, and the process was accelerated during the recent war.

The generation of hydro-electric power from the great dams and reservoirs of the Nile has hitherto been negligible. The most important project, that of the electrification of the Assuan dam, has been the subject of interminable studies, procrastination and intrigues since its announcement as a practical proposition in 1912. Plans for its execution were laid down in 1932, but were postponed indefinitely in the economy campaign of that year. After the recent war the project was revived and, in January 1947, the sum of L.E. 10 million was appropriated out of the General Reserve to finance the scheme pending the issue of an internal loan. Barring unforeseen contingencies it is expected to be finished by 1951. (2)

The projected power installations will have a capacity of 450,000 HP. They will supply large rural areas with electricity and, through the establishment of pumping stations, extend the area of perennially irrigated land by about 250,000 acres ; but its main objects are twofold. The first is to provide power for a large electro-chemical plant for the

(1) A new scheme, now under consideration by a group of Egyptian businessmen, envisages the unification of existing undertakings through a grid system.

(2) The Assuan Dam Scheme is a part of the Five Year Plan of Capital investment in transport, agriculture and industry inaugurated by the present Government.

manufacture of nitrogenous fertilizers to supply half Egypt's annual requirements of between 600,000 and 800,000 tons. The other is to create an electro-metallurgical industry based on the non-sulphurous dark hematite ore near Assuan, which is rich in iron oxide, the contents varying from 55 to 88%. (1)

Criticism of the proposed scheme, however, has not been lacking. (2) It is alleged that appeals to nationalism have prevented a thorough and dispassionate study of the technical problems involved. It is also alleged that the dam was originally built for irrigation purposes only, and it would be costly to adapt it to the generation of power. Owing to the High Ratio, i.e., the relation of the height of the water-fall at the peak and at the trough of the flood, the production of power during the months of high water would be very much below the yearly average, and to generate electricity all the year round would cause a high rate of depreciation to turbine blades owing to the high mud contents of the water. It is also alleged that the uses to which the power is to be put have only received scant study, and that the area around Assuan is not favourable to the development of modern industry, while the northward transmission of current would be costly. The critics seem to be in favour of the erection of a number of thermo-dynamic plants using home produced oil, as the kilowatt-hour rate of such schemes would be smaller.

Although the writer is not qualified to pronounce on the validity of such objections, he cannot help detecting in the writings of the critics an excessive preoccupation with the profitability of the scheme. Even in the U.S.A. an analogous multi-purpose scheme, the T.V.A. called for revenues "not at once but as soon as practicable". Looked at as a scheme of irrigation and development involving the erection of short range transmitters, the establishment of trading estates and pilot plants and financed at a low rate of interest with no part of the original costs of the dam debited to it, the scheme would be advantageous in the long run. The rise in productivity and employment in the area

(1) It is estimated that there are some 15 million tons of this ore; *See* Report of the Goodwill Trade Mission to Egypt, 1946–1946.

(2) *Cf.* An important article by Professor Chichiny in the Journal of Engineers, March 1946. *See* also M. A. El Said, Engineering in Egypt. In May 1947, the whole scheme was ordered by an international committee of experts. The only doubts raised by the committee referred to the proposed use of electric current in creating a metallurgic industry.

will increase its taxable capacity; and in the calculus of state enterprise one must take in consideration the favourable effects on public revenue of the extension of cultivation and the birth of new industries. Moreover, in gauging its effects on employment one must take in consideration the secondary and tertiary effects of state investment and the gain to existing industries. Finally, the use of a substantial part of the Reserve Fund in the electrification scheme should set a new precedent for large scale state investment, out of communal saving, in development schemes outside agriculture.

The measures hitherto taken by Government to help industry have been found, on examination, to be deficient, and further and more potent forms of state aid have been suggested. These measures include the provision of cheap credit, the establishment of training estates and rural housing schemes, the provision of cheap power, the extension of technical education and the granting of subsidies and tax concessions. Their adoption would lower the cost of capital procurement and increase its marginal productivity so that the level of industry would be prevented from reaching equilibrium at the present low level. However, mere state-aid to industry in a backward country like Egypt is not sufficient to solve the problem of poverty, and the need is urgent for a balanced programme of industrial development to be initiated by the state. There would be nothing new in such a programme as state enterprise had been the rule in nineteenth century Egypt and the Railway system is state owned and operated.

The over-powering need for an ambitious development programme arises from the existence of a large and steadily growing surplus agrarian population living under conditions of disguised unemployment. Although there are no statistical indices to prove the existence of over-population, in the sense of a falling national income per capital, the following indices are adduced to prove increased pressure on the land, and the emergence of diminishing physical and value returns in agriculture. Between 1907 and 1947, the population increased by over 70%, while the cultivated area remained stationary at around 5,300,000 acres. However, owing to the mild climate and the availability of perennial irrigation some areas now yield two or even three crops per year. Yet the so-called crop area has not kept pace with the growth of population, and the crop area per capita fell from 0.67 acre in 1907 to 0.33 in 1937. Consequently most of the increase in the "occupied population" between the various census years went

into agriculture; between 1927 and 1937, the active population increased by 830,000 of which 782,000 went to swell the ranks of agriculture, raising its share in the active population from 67 % to 71 %. Furthermore, there has been a steady increase in the number of midget holdings (up to 1 acre) and a reduction in the average holding. Between 1907 and 1937, the number of holdings of one acre or less rose from 783,000 to 1,710,000 while average holding in this category fell from 0.47 to 0.41 acre. Throughout the period however, the number of large holders owning more than 50 acres fluctuated between 12 and 14 thousand. Their holdings now amount to 40 % of the cultivated area.

The limited increase in resources has not been counterbalanced by any substantial increase in agricultural productivity. Between 1913 and 1937, the general index of agricultural production increased by 8 % only as compared with a 40 % increase in population.(1) Moreover, in company with food and raw material producing countries Egypt has been suffering from an adverse movement in the terms of trade with industrial countries. It has been estimated that between 1876-1880 and 1936-1937 prices of primary products (in gold) fell by 45 %, but those of manufactured articles by only 21 %.(2) In Egypt, the value of the cotton crop, including seed, fell from an average of L.E. 50 million for the period 1920-1924, to L.E. 44 million for the period 1925-1929, and to less than L.E. 20 million in 1930-1936, while the area under cotton remained substantially unchanged around 1,700,000 acres, despite some attempts at diversification and the subsidization of citrus fruits and onions.(3) Owing to the rapid progress in the production of artificial fibres and the probable extension of cotton growing in the U.S.S.R., South America, the Middle East and the British Empire, it is not likely that the future course of cotton prices will move substantially in Egypt's favour.

It is submitted therefore that the only way out of the present morass of poverty is the transfer of a substantial part of the agricultural population to secondary and tertiary occupations, thereby increasing the national income and raising the ratio of land and capital per active worker in agriculture. Now, the possibility of remarkable changes

(1) "The "potential" increase in population in Egypt is very great as mortality rates may be confidently expected to decline as sanitation improves.

(2) League of Nations, Industrialization and Foreign Trade, p. 16.

(3) The value of the cotton crop in 1937 was L.E. 27 million. In that year the area under cotton increased by 300,000 acres.

in the occupational distribution of the population is amply demonstrated by the experience of Japan and the U.S.S.R. (The share of population dependent on agriculture in the U.S.S.R. is estimated to have fallen from 78 % in 1926 to 67 % in 1930 and to 54 % in 1939). The index of manufacturing activities in the U.S.S.R. and Japan stood at 774.3 and 528.9 respectively in 1936-1938 (1913=100) while the world average was only 185.(1)

The order of magnitude of the required transfer is not easy to estimate with any semblance of exactitude. For another internationally depressed area, i.e. South Eastern Europe, Dr. Rosenstein Rodan(2) estimates that the "agrarian excess population" amounts to 20-25% of the total population. Applying the same ratio to Egypt we would reach the startling conclusion that of the 19 million inhabitants (1947) over four millions are wholly or partially unemployed, and should be moved into secondary and tertiary occupations within the next decade or two. Moreover, during the next twenty years, assuming constant rates of fertility and mortality, the population will increase by something like six million. It would, therefore, be necessary to find alternative employment during the next twenty years for 40% of the combined figures of the present surplus population and the prospective natural increase amounting in all to 4 million, i.e. 400,000 new jobs annually.

This estimate of agrarian surplus population seems exaggerated when the special circumstances of Egypt are taken into consideration. In the first place, the optimum number of workers per acre is higher in Egypt because agriculture depends almost entirely on irrigation, and the extension of perennial irrigation enables the cultivation of the same plot twice or three times annually. Secondly, cotton which occupies 25 % of the crop area in normal years, is a highly labour intensive crop in its cultivation and subsequent processing. In 1933, the Ministry of Finance estimated that an acre of cotton needed 41 man-days and 65.5 boy-days, while wheat, barley, beans, lentil and bersim required between eleven and fifteen man-days and between one and three boy-days. Thirdly, the soil is highly fertile and the yield of cotton per acre is more than double the world average; hence the

(1) League of Nations, *Ibid*, p.139 annexe.
(2) Problems of Industrialization of Eastern and South-Eastern Europe. Economic Journal, June-September, 1943, pp. 204-211.

land can give subsistence to more persons than the less fertile Balkans. Finally, the percentage of occupied persons engaged in agriculture which was 71% in Egypt in 1937 was lower than that of Roumania (78% in 1930). Yugoslavia (79% in 1931). Bulgaria (80% in 1934) or Turkey (82% in 1935). On the other hand it is quite possible by reclamation, irrigation and scientific research to increase the cultivated and crop areas and to raise the level of agricultural productivity. More intensive utilization of the dams and reservoirs on the Nile will restore the fertility to half a million acres of desolate marshes in Northern Delta. New projects, such as the heightening of the Assuan Dam, the building of dams on lakes Tsana and Albert and the clearing of the Sudd area on the White Nile would raise the present 50% ratio of utilization of Nile Waters, thereby enabling the reclamation of another half a million acres in the Delta,[1] and the conversion of a million acres in Upper Egypt to perennial irrigation. The establishment of powerful drainage stations would reduce the level of sub-terranean water and restore the fertility of large tracts in the Delta. It is also possible to introduce new crops such as beetroots and flax, and to encourage the plantation of large zones of fruit, bersim, vegetables and medical plants. Finally, improvements in hygiene would increase the productivity of the remaining workers in agriculture while the eradication of pests and a more rational use of fertilizers would substantially increase crop yields.[2]

In the light of these considerations the estimate of agrarian overpopulation in Egypt might be reduced, so that the number of new jobs required every year would be in the neighbourhood of 150,000 active workers. Our problem is to discover new openings to absorb them, and in the following some tentative suggestions are made. It is possible to increase the production of fish by modernizing the antiquated equipment of the fishing industry. The tourist industry could be expanded, provided new hotels are built to cater for the new class of tourists who, at present, cannot afford the prices charged at the super-luxury hotels of Cairo and Upper Egypt. Mining is another fruitful field of expansion and the need is urgent for an exhaustive geological survey

(1) The exploitation of the newly reclaimed lands may require the inauguration of state-aided schemes for the transfer of population from the heavily congested areas of the Delta.

(2) On all this see the proceedings of the Second Agricultural Conference in Egypt, 1945.

of the deserts bordering the Nile. The recent development of oil-fields in the Red Sea area has led to an increase in the output of crude mineral oil from an average of 1/4 million tons before the 1939 war to 1 1/4 million tons in 1945, and further increases are confidently expected. Furthermore, the inauguration of a programme for rebuilding the town slums and the 6,000 villages which are a disgrace to the country would cause a large expansion in the building and building materials industries.

In the field of manufacturing industry proper an examination of the list of imports for 1938 helps in indicating the lines of future approach. The most important single item of imports was "textile materials and manufacture (including clothing and sacks)" which amounted to L.E. 7 1/4 million out of a total of L.E. 37 million. Although some progress in the spinning and weaving of fine yarns has been made, the bulk of local production is of the coarser varieties. Owing to the present embargo on the import of foreign cotton, local producers are forced to use high grade Egyptian cotton for the manufacture of coarse counts, and it would be advisable to allow the import of Indian cotton to be mixed with the local fibre. It has been estimated that approximately three million cantars of cotton would be needed to meet the requirements of Egypt and the Middle East ; such a development would require trebling the present spindlage capacity. The manufacture of cotton thread and sacks, the expansion of the seed crushing industry and of soap-making all depend on the local crop and could be easily expanded. Other possible industries are fertilizer, boots and shoes, paper, pottery, glass, light metallurgy, assembly plants, the dairy industry and the packing, de-hydration and canning of agricultural products such as dates, citrus fruits and vegetables. The expansion of oil production may be the basis for an enlarged chemical industry working on local materials and on imports from Palestine.

But the choice should by no means be limited to production for local consumption. As costs of production are reduced after a period of initial growth, exports to adjacent countries should be undertaken. The above programme of state-initiated enterprises would perform for the stagnant economy the well known functions of pump-priming leading to the creation of secondary and tertiary employment and the rise of crafts complementary to, rather than competative, with modern mechanized industry. It should be added that in applying

the comparative cost analysis to Egyptian conditions, account should be taken of the fact that the opportunity cost of most of the labour required is negligible or nil, owing to the prevalence of total or disguised unemployment.

In order to avoid waste of resources and to ensure that demand will be forthcoming in sufficient volume to justify large investment in plants approaching optimum size, it would be advisable to co-ordinate the Egyptian plan with that of other Arab countries under the auspices of the Arab League. This would also ensure that the economies of the adjacent countries would be complementary rather than competitive. As some of the Arab lands are sparsely populated and there is reason to believe that an optimum utilization of resources requires some transfer of population between them, the League should prepare comprehensive schemes of subsidized migration in conjunction with developmental schemes in Mesopotamia and elsewhere.

The ambitious programme of development outlined above should aim at transforming the country within a short space of time lest the natural increase in population should offset the increase in the national income. In gauging the possibilities of its successful execution two formidable bottle-necks come to our minds, viz: the lack of technical and managerial skill and the dearth of capital equipment. The first would be overcome by a rapid programme of education on the lines followed by Japan, Turkey and the U.S.S.R. This, coupled with technical education will tend to increase the supply of skill and reduce the present high premium attached to it. The nucleus of the new labour force is to be found in the vast number of technicians who received some training in the workshops of the Allied Expeditionary Forces during the recent war, and in the graduates of technical schools who are at present rotting in clerical jobs in the administration. The period of training in industrial art schools could be reduced by eliminating the unnecessary subjects added during the Great Depression when it was thought advisable to lengthen the period of training as a measure for combating unemployment. In the building industry mobile labour units could be formed, while village labourers could be mobilized to help build their dwellings. The supply of skill could be increased by importing foreign workers from industrially advanced countries and from the displaced persons' camps in Europe. On

the managerial side use should be made of the large number of civil servants who had first hand experience of business while acting as sequestrators in businesses owned by enemy aliens during the war.

The other bottle-neck is capital. In Mr. Rosenstein Rodan's calculations based on pre-war prices,a sum of £300-350 per head is required for investment in industry, housing, communications and public utilities. The annual net investment, i.e. exclusive of the sums required for maintaining capital intact, would be L.E. 40-50 million over the next two decades. But here, again, the volume of investment per head required in Egypt may be less than in the Balkans as there have been large investments in irrigation and transport, while investment in power generation is reduced as the dams and barrages are already there. Unlike China and South America the inhabited area of Egypt is compact and, apart from modernizing the road system, there is no need for large investment in transport.

The development programme could be financed from three sources, viz : internal savings, the sterling balances held in London and foreign borrowing. A substantial part could be got by disboarding and the mobilization of small savings for investment in industry. As in the past, state investment could be financed from the budget surpluses and from the accumulated reserve funds amounting to L.E. 23 million in 1937. As the volume of lending to private industry is not likely to be large for a long time to come, the Government should borrow in the internal market to finance the new projects at low rates of interest, while the Industrial Bank would provide medium term credit to industry and the municipalities, and guarantee their bond issues. A first step, however, is to combat the present inflation by blocking part of the purchasing power, deflation of prices and profits devaluation within the framework of the Bretton-Woods Agreement or a combination of all three methods.

The foreign exchange requirements of the plan are not easy to estimate. Many projects such as the housing programme and the extension of irrigation works do not require expensive capital equipment from abroad, and most of the capital required for them resolves itself into payments for wages and local purchases. On the other hand, equipment for industry has to be imported owing to the absence of a machine tool industry and it will be necessary to increase the imports

of foodstuffs to raise the standard of nutrition. According to Mr. Tufts.(3) imports of capital goods into Japan during the first decade after 1900 amounted to 40 % of total investment and some such figure could be reckoned with in the case of Egypt. As capital equipment will be the major bottle-neck, measures to economise its use, e.g. the intensive working of existing capital equipment and the use of double or treble shifts, should be resorted to.

The prospects of drawing on the sterling balances accumulated in London, £ 425 million approximately for the finance of purchases of capital goods are now dim, at least in the near future. However, part of these balances may be released for immediate use. In contrast to foreign loans this source of investible funds does not give rise to the problems of repayment and transfer.

Finally it will be possible for the Egyptian Government to borrow abroad with or without the guarantee of the International Bank for Reconstruction. In this respect, Egypt enjoys many advantages over other internationally depressed areas. There are no fears of immediate internecine strife. The country's credit standing is high and the yield on Government securities compares favourably with that of other countries. In the last conversion operations of the National Debt, which incidentally does not exceed L.E. 90 million, the rate of interest on long term securities was 3 1/4 %, and even in the worst days of the Great Depression Egypt did not default on its external debts. The problem of securing adequate foreign currencies for the service of the external debts is made easier in the case of Egypt by the fact that it has in cotton an important crop with a world market. Moreover, the exploitation of the oil resources is likely to yield additional foreign currencies, while the programme of electrification, the use of oil and the local production of fertilizer will release foreign currencies for the purchase of capital goods. Some capital equipment will furthermore be provided by foreign concerns who desire to participate in the capitalization of the new concerns. The successful execution of the financial plan will necessitate the imposition of some measure of exchange control and licensing of imports to ensure that the proceeds of exports are not squandered in the purchase of luxuries for the few or in ostentatious spending abroad.

(3) In an appendix to E. STALEY's World Economic Development.

The execution of the developmental plan requires the qualities of initiative and imagination. It is the test of whether the present ruling classes are to remain in the privileged position they occupy. It offers them a chance to break with the lethargy of the past and to serve the impoverished masses. It is their opportunity and their challenge. Will they rise to it ?

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