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## **Egypt's Advance toward a New Social Contract**

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On November 11, 2016, following protracted negotiations, the International Monetary Fund (IMF) approved a loan of \$12 billion to Egypt over three years, to help it undertake an ambitious reform plan that should enable it to overcome years of structural problems that burden its economy. The reform contains a list of basic components, including floating exchange rates, the imposition of value added tax (excluding defined food products and health services that benefit from an exemption), a reduction of energy-related subsidies, and concurrently, the creation of a social safety net to protect the weak strata. A sum of \$2.75 billion, the first of four payments, was transferred to Egypt's Central Bank immediately upon approval of the loan.

There is no doubt that an IMF loan is significant for Egypt's economy, particularly in light of the state's dwindling foreign currency reserves, but the loan's importance lies beyond its immediate financial aspect. Although Egypt has received massive assistance in recent years from the Gulf states, especially Saudi Arabia, with amounts exceeding the IMF loan, the agreement with the IMF affords Egypt a particular benefit of twofold importance. First, approval of the loan reflects the international community's faith in the difficult recovery process that the Egyptian economy is undertaking, and helps rebuild confidence among foreign and local investors in Egypt's economic potential. Second, and more important, the loan requires serious reforms, which will necessarily revamp the social contract between the Egyptian regime and its citizens, after decades of failed economic policy that plunged the country into a severe financial crisis.

### **The Need for a New Social Contract**

The legitimacy of the Egyptian regime during the Mubarak era was based, first and foremost, on economic anchors – i.e., the government's promise to provide a fair solution for its citizens' material needs – and not on a rousing ideology or a stirring political vision, as, for example, during Nasser's tenure. The social contract that the Egyptian regime under Mubarak offered its citizens included material perks to the main social classes, which earned their loyalty and guaranteed Egypt three decades of relative stability: senior military commanders received economic privileges, and the military became the most dominant actor in the Egyptian economy; a narrow business elite enjoyed attractive opportunities to create monopolies and amass wealth; the middle class received many stable positions in government bodies and in the security apparatuses; and the lower class consumed social services and subsidized food products that facilitated a cheap and easy solution for their basic needs.

However, with the passage of time, the social contract grew weaker, unraveled, and stopped fulfilling its original political-economic purpose. The country was hard pressed to withstand the burden of the subsidies, which intensified due to an annual population growth of approximately 1.5 million people; the depletion of the domestic oil and gas resources; and the rise in prices of imported wheat. Underlying the social unrest that led to the revolution on January 25, 2011 were an unemployment rate of more than 25 percent in the 15-24 age bracket; severe housing shortages; the rising age among marrying couples; inflation and the subsequent spike in the price of basic commodities; deterioration of the health and education services; corruption in the public sector; and primarily, the widening inequality in the distribution of wealth between the social classes. Even though Egypt's GDP reached encouraging rates of an annual 5 percent during the first decade of the millennium, the members of the lower middle class did not benefit from this growth, and they grew increasingly alienated from the regime. The upheavals that Egypt suffered subsequent to the revolution led to a further and significant adverse impact on the aforementioned economic parameters, and dragged Egypt to the brink of bankruptcy. As of 2016, more than 40 percent of civilians between the ages of 15 and 24 are unemployed, many of whom hold academic degrees and are unable to find employment and utilize their education. The deficit in the government's annual budget exceeds 10 percent, despite injections of assistance of billions of dollars. Tourism has diminished, profits from the renovated Suez Canal have failed to achieve the early expectations, and the negative balance of payments has led to a dwindling of the foreign currency reserves in Egypt's Central Bank, erosion of the value of the Egyptian pound, and record inflation.

The objectives of the current economic reform are to cut back and redirect the Egyptian government's expenses; create attractive conditions for capital investments; improve Egypt's competitive capabilities in world markets; invigorate tourism; create new workplaces; and spur growth. More importantly, the reform is designed to forge a new social contract between the regime and its citizens, which will replace the old contract that lost its validity years ago. As Abdel Monem Said Aly, the chairman of the board of directors of the daily newspaper *al Masry al-Youm* explained, Egypt currently has about 92 million residents, and the cost of its current social contract is remarkably higher than the cost of the contract forged during the 1960s, when the population was approximately one third smaller. In his view, the social contract that prevailed in Egypt made the government fully responsible for managing civilian lives from birth to death in the fields of education, leisure, economics, and employment. For their part, the population remained passive and helpless, and developed absolute dependency on the government. Now, when Egypt's population approaches 100 million, when its economic ailments are multiplying, and its distresses are exacerbated, Egypt – the state and its citizens – must reexamine their social contract. According to Said, the updated contract must not limit itself to the country's concern for the poor, but rather, must focus on imparting tools that will enable them to extricate themselves from the cycle of poverty and climb the social ladder.

**Mobilizing Public Opinion to Support the Economic Decrees**

Spearheading a reform plan and creating a new social contract between the regime and civilians in Egypt is no simple task. The lower middle class can be expected to bear the brunt of the economic measures, at the very least in the short range, due to the heavier burden that will fall on their shoulders given the cutback in subsidies and the fluctuations in the exchange rate, measures that are expected to spike prices of electricity, transportation, and imported basic commodities. Moreover, the planned cutbacks in the expenses of the government ministries may adversely affect public sector employees, who constitute a buttress for the regime, and perhaps might even lead to wide-scale dismissals. As witnessed in the “bread riots” in Egypt in January 1977, economic decrees of this sort are liable to arouse broad popular unrest, which in turn may be channeled against those in power by opposition forces, headed by the Muslim Brotherhood, that strive to chip away at the regime.

Aware of the political risks, the Egyptian regime was prepared to curb them on three levels: first, through public relations that explained the urgency of “painful” economic reforms. An editorial published on November 1, 2016 in *al-Ahram* contends that “Egypt currently needs a wartime economy and, above all, must internalize that there is no reform that is not accompanied by suffering.” Opponents of the reforms have been portrayed by President el-Sisi as “evil people who do not want what’s best for Egypt” and who seek to puncture the solidarity of the Egyptian people and undermine the country’s stability. Second, the Egyptian regime promised that the reforms would include the establishment of a social safety net to soften the blow that is expected to hit the weak strata, and that it would help them weather the difficult period. Within this framework, the regime promised to redirect the subsidies so that they reach the poor, the elderly, and children, and thanks to the cutback in the subsidies, create new resources in favor of investments to improve education, health, scientific research, and social protection. Third, the regime devoted special efforts to improve its image among members of the Egyptian young generation, which it eyes as the social sector with the highest potential for volatility during any future outbreak of protest. The National Youth Conference convened by the regime in Sharm el-Sheikh on October 25-27, 2016, attended by President el-Sisi and members of his government, along with thousands of Egyptian youth, concluded with a series of recommendations to benefit this population, mainly: the establishment of an ad hoc committee to examine the situation of young imprisoned people awaiting trial; an amendment to the demonstrations law; and improvements in the higher education system.

The feeble response to the Ghalaba Movement (Poor People’s Movement), a Facebook initiative seeking to arouse broad popular protest against President el-Sisi on November 11, 2016 – the same day as the approval of the IMF loan – attests, apparently, to the success of the Egyptian regime’s information campaign, and perhaps also to the security forces’ power of deterrence. One way or another, the willingness of members of the lower middle class, and particularly the youth in Egypt, to support the economic reform and to endure hardship to help it succeed is not

unconditional. The plan, in its current format, requires the middle class to tighten their belts, but does not impose a comparable burden on the elite classes close to the regime, and does not implement rules of transparency and good governance on the military, which controls about 40 percent of the Egyptian economy. Measures such as increasing the battle against corruption and raising tax on high salary employees, which is currently only 22.5 percent, may boost public support of the economic plan. Furthermore, limiting the benefits given by way of subsidies can be expected to weaken civilian dependence on the regime and intensify civilian demands for genuine political participation, transparency, and accountability on the part of the government authorities.

Evidence of expectations of the regime among Egypt's younger generation came in the critical remarks to el-Sisi's speech at the close of the National Youth Conference, when the President painted himself as a father and declared that he loves the youth of Egypt as if they were his own sons. In an article in *al-Masry al-Youm* entitled "The Youth are Citizens – They are Not Your Sons," 'Amr al-Hady railed against the president's rhetoric. According to him, "It seems that confusion has broken out in the government corridors; they must be reminded of the fundamental facts: the country belongs to the people, the land is the people's land, the money is the people's money, the military is the people's military, the government belongs to the people, the sovereignty belongs to the people, and the government institutions are there to serve the people ...We want a president of a modern country and not a father, a ruler or a caliph." The approval of the IMF loan, therefore, constitutes an opportunity for Egypt to march not only toward economic reform, but also toward a new and updated social contract between the regime and its citizens. Stabilization of the Egyptian political system mandates that this contract be inclusive, fair, and sustainable.

