

The London School of Economics and Political Science

**Gramsci in Cairo:
Neoliberal Authoritarianism, Passive Revolution and
Failed Hegemony in Egypt under Mubarak, 1991-2010**

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Relations of the London School of Economics for the degree
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Declaration

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Abstract

Most existing interpretations of the thought of Antonio Gramsci in International Relations and International Political Economy are strongly influenced by the seminal account provided by Cox in the early 1980s. Recovering the hitherto neglected concept of philosophy of praxis, this thesis departs from the 'Coxian orthodoxy' and develops an alternative understanding of Gramsci that sees hegemony as a combination of coercion and consent emerging from the articulation on three overlapping dimensions, respectively involving the interaction of the economic and the political, the international and the national, the material and the ideational.

The potential of this approach is illustrated by examining the unfolding of neoliberal economic reforms in Egypt in the past two decades. It is argued that, firstly, the interaction of economic and political factors produced the emergence of a neoliberal authoritarian regime with a predatory capitalist oligarchy playing an ever greater role. Secondly, articulation across different spatial scales brought about a passive revolution managed by the state with the aim of adapting to the globalising imperatives of capital accumulation without broadening political participation. Lastly, the performative power of neoliberalism as an ideology fundamentally reshaped economic policymaking in favour of the rising capitalist elite.

This focus on the shift in class relations produced by – and itself reinforcing – neoliberal reforms allows us to understand how the already waning hegemony of the Egyptian regime under Mubarak gradually unravelled. The rise of the capitalist oligarchy upset relations of force both within the ruling bloc and in society at large, effectively breaking the post-Nasserite social pact. Passive revolution witnessed the abdication to the pursuit of hegemony on the national scale, with the attempt of replacing it with reliance on the neoliberal hegemony prevalent on the international scale. The success of neoliberalism as an ideology did not obscure the increasingly inability of the regime to provide material benefits, however marginal, to subaltern classes. Thus, the affirmation of neoliberalism in Egypt corresponded to the failure of hegemony on the national scale.

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Introduction

RATIONALE FOR A GRAMSCIAN APPROACH TO THE STUDY OF ECONOMIC REFORMS IN EGYPT

'This time is different'. On a torrid Sunday in early July 2010, sitting on a large armchair in his opulent and indulgently air-conditioned office in Heliopolis, then minister of investment Mahmoud Mohieldin gave what felt like a routine answer to what probably was a routine question. Echoing the concerns of the respected economist Hanaa Kheir-el-Din, I asked the minister whether also on this occasion the push for reform was receding with the waning of external pressures, as some measures taken in 2009 and 2010 already seemed to suggest. 'This time is different' was his answer, before he eloquently went on to claim that the halt to reforms was due to adverse global economic conditions, and that the impetus for reforms would have gathered new momentum as soon as the global economy would allow for it. After all, he suggested while holding a cigar in his right hand, the cabinet was still the same, and so were the beliefs of its most prominent members.

A couple of months after our interview, the president of the World Bank Robert Zoellick appointed Mohieldin as managing director of the World Bank group, praising him as 'a tireless reformer' and '[a]n outstanding young leader' (World Bank 2010). Mohieldin took his post in early October, thus resigning from the Ministry of Investment whose policy remit had been tailored around his competences and projects. About six months and a half later, while Mohieldin was in his new office in Washington, DC, hundreds of thousands of people demonstrated around the streets of Cairo, Alexandria and the other major cities in Egypt asking for an end to thirty years of emergency law. As days went on, the protests increased both in size and demands, leading on the 11th February 2011 to the resignation of Hosni Mubarak, after almost three decades of rule.

Mohieldin had been proven right in two ways. The obvious meaning of his statement, as witnessed by his following remarks, was that a 'reformist'¹ cabinet had finally emerged in Egypt and proved able to discard a state-dominated economy.

¹ Following the success of this self-definition, the term 'reformist' is used in this work to identify the faction of the Egyptian ruling bloc in favour of free market reforms.

The support given by the army to demonstrators in the first phase of the revolution could then be seen as the reaction on the part of the *ancien régime* against the 'winner-take-all' tendencies of the new bourgeoisie empowered by reforms. Mohieldin was also right in a way he had not intended. This time was different because the impact of both the wide-ranging reforms implemented over the past two decades and the global economic crisis, though not captured adequately by the aggregate indicators provided in official reports, had led a substantial portion of the Egyptian middle and lower classes to desperation and eventually to take it to the streets. Reforms driven by neoliberal ideas, and the effects of the crisis of the neoliberal economic model worldwide, had succeeded in mobilising Egyptian masses against their rulers.

Following Mohieldin's suggestion, this thesis looks at the economic reforms carried out in Egypt between 1991 and 2010 in order to understand what was different this time, and why.

Why Gramsci? Which Gramsci? Rationale and theoretical contributions

Whereas there is on the one hand a sizeable literature on the rise of neoliberalism both in the developed and developing world,² and on the other hand considerable efforts have been devoted to studying the politics of economic reforms in the Middle East,³ the main issue arising from the overlap of these two literatures – neoliberalisation in the Middle East – has been somewhat neglected to date.⁴ By focusing on the case of Egypt, this work aims to contribute towards filling this gap.

In order to do so, it develops a perspective rooted in critical International Political Economy (IPE), and more specifically one inspired by the thought of Antonio Gramsci. This choice is dictated by two considerations. Firstly, relying on Gramsci's unorthodox Marxist stance allows us to study the consequences of neoliberal economic reforms by still focusing on the conditioning power held by the structure and by the relations of class forces underlying it, while at the same time avoiding the shallows of deterministic Marxist approaches (Germain and Kenny 1998: 5). Secondly, the suitability of Gramsci to the study of the Middle East, and

² On the emergence and diffusion of neoliberalism in the US, see Duménil and Lévy (2004); in the EU, see Bieler and Morton (2001); in Eastern Europe, see Worth (2005) and Shields (forthcoming); in Latin America, see Otero (1996) and Chase (2002).

³ See for example, Barkey (1992), Harik (1997), Hakimian and Moshaver (2001).

⁴ The volume edited by Guazzone and Pioppi (2009) is a valuable attempt towards bridging this gap.

especially of its political economy, has been seriously underexploited. In the last decade, Gramsci has increasingly been used, either alone or combined with insights from other thinkers, to discuss specific elements of the international relations of the Middle East, ranging from the US foreign policy in Iraq and its relation to state autonomy (Dodge 2006), to the reproduction of culture and identities in Egypt as an obstacle to meaningful democratisation (Pratt 2005). Despite these valuable contributions, to my knowledge the only systematic attempt to develop a Gramscian framework for the analysis of the transformation of the political economies in the Middle East came from Nazih Ayubi (1995). However, the explicit focus on the regional dimension characterising this study means that little attention is paid to the international dimension, both with respect to the globalising tendencies of capital accumulation and to the specific policies adopted by social groups and institutions active on the international scale. Yet, Gramsci's peculiar biography, with a childhood in underdeveloped Sardinia followed by university studies in Turin, one of the outposts of European industrial capitalism in the early twentieth century, suggests that he might have something to tell us about how developed and developing countries interact with each other, and what are the social relations involved and mobilised by this interaction.

Most existing interpretations of the work of Gramsci in IR and IPE rely on the seminal account provided in the early 1980s by Robert Cox (1981 and 1983), which eventually spurred the emergence of two strands of neo-Gramscian literature. On the one hand, the so-called Italian School (Gill 1993), directly inspired by Cox, and hence relabelled here Coxian. Within this strand, the explicit focus on social relations of production does not prevent a slide into Eurocentric state-centrism when the expansion of hegemony in the international is discussed: for Coxian analysts, hegemony in the contemporary global political economy is rather unambiguously American. On the other hand, the Amsterdam School,⁵ departing from the Coxian analysis and relying more on the work of Kees Van der Pijl (1984 and 1998), develops a class-centric perspective, focusing on the emergence of a transnational capitalist class, which is the main subject elaborating and diffusing an hegemony that is largely independent from states.

Being dissatisfied with the unilateral tendencies of these two strands on this issue of the extension of hegemony to the international scale and yet being

⁵ This approach has been labelled by Overbeek 'transnational historical materialism' (2000).

convinced of the potential that Gramsci holds for IR and IPE, I took the route of going back to the original source. Hoping to make good use of my familiarity with both the cultural context and the nuances of the original version of the *Prison Notebooks*, I hereby attempt to provide a novel interpretation of Gramsci's thought and its potential application to IR and IPE, particularly with reference to the developing world. Along this way, I have been preceded by Adam Morton's excellent work on hegemony and passive revolution in Mexico (2007a).

In particular, I became persuaded that a key to the study of Gramsci could be found in the implications of the concept of 'philosophy of praxis' often used in the notebooks. As discussed extensively in Chapter 1, this compound concept is underpinned by an understanding of history as an essentially dialectical process. This brings to the fore what is arguably the most distinctive – and most neglected in IR and IPE – theoretical and methodological insight inspired by philosophy of praxis: the importance of different forms of articulation for the constitution of hegemony,⁶ both on the national and international scale. Articulation makes it possible to relate in an interactive form elements that are either analysed separately in studies relying on Weberian idealtypes or related only mechanically as in deterministic Marxism. In this respect, the attempt to develop a Gramscian approach based on articulation serves not the scope of developing an alternative Gramscian *theory*, but rather to suggest how Gramsci can provide the foundations for an alternative *method* for studying continuities and transformations in the global political economy.

The interpretation of Gramsci provided here is firmly grounded within the Marxist fold, resisting the risk of 'pluralist empiricism' characterising Cox's account (Burnham 1991), while at the same time allowing for greater flexibility than most Marxist approaches when relating class relations to political and ideational developments. This is done through two interrelated moves. In the first place, articulation is conceived as an asymmetrical relation, characterised by determination in the first instance and relative autonomy. Determination in the first instance refers to the shaping influence enjoyed by the various instances of structure, discussed below, over the superstructure. In other words, the structure defines the boundaries within which various forms of agency develop and realise

⁶ In contrast with neo-Gramscians, and much closer to the approach developed here, Ayubi had put articulation at the very core of his analytical apparatus (1995: 26-30).

their own strategies and projects. Relative autonomy on the other hand is understood in two forms: in a weaker sense, as the freedom for agency to take any course of action within the boundaries defined by determination in the first instance; in a stronger sense, as the ability of these actions to feed back on the structure itself and thus to some extent reshape those boundaries which initially constrained possibilities for action. Secondly, the extent of the relative autonomy enjoyed by agency is still related to transformations in class relations. Every determination in the first instance empowers some social groups *vis-à-vis* others, thus creating an uneven playing field where some actors enjoy more room to manoeuvre than others. The argument here, following what Morton calls 'minimal foundationalism' (2007a: 129), is that the groups empowered and disempowered by structural changes can be best identified by referring to class relations.

More specifically, this study focuses on three forms of articulation, which refer to three different instances of the relation between structure and superstructure at the heart of Gramsci's thought. Incidentally, these three forms of articulation also constitute the means to develop the three theoretical contributions of this work to critical IPE. Firstly, the articulation between the economic and the political allows us to understand the form of changes generated by neoliberal reforms. In this respect, while by no means denying the fundamental role of the economic structure, this study suggests that political dynamics and institutions, and particular the type of political regime, do matter. This is an aspect largely neglected by neo-Gramscian IPE, but one that has crucial relevance for the analysis of neoliberalism, as political factors always mediate the shift towards a neoliberal accumulation regime, thus producing forms of hybridisation that undermine the neo-Gramscian assumption of neoliberalism as a monolith.⁷

Secondly, the articulation between international and national scale is helpful to grasp the spatial sources of these politico-economic transformations. In this respect, both the Coxian and the Amsterdam schools tend to assume the spread of hegemony as a form of unilateral Eurocentric diffusion, thus conceiving the national scale as a passive recipient of outside-in pressures. The articulation approach brings the state back into the picture, providing a more fine-grained characterisation,

⁷ This assumption is increasingly being contested from a neo-Gramscian perspective with respect to the different varieties of neoliberalism that have emerged in Western Europe. See for example, Bruff (2009) and Macartney (2010).

which sees the national scale as a nodal scale (Jessop 2008: 106), enjoying relative autonomy from the international. Within this context, the state articulates the pressures deriving from the globalising tendencies of capital with the political objectives of the ruling bloc on the national scale.

Lastly, the articulation between material and ideational factors provides a key to understanding the reasons for the changes produced by neoliberalism. In this respect, the two neo-Gramscian strands differ starkly. On the one hand, the Amsterdam school has an approach that Gramsci would define as 'vulgar materialist', with hegemony mostly seen in functional terms as the legitimation of the rule of a specific class or fraction thereof. On the other hand, the Coxian school slides towards an idealist account that puts too heavy an emphasis on the consensual dimension of hegemony. On this issue, the contribution of the articulation approach lies in acknowledging the performative power of economic ideas in defining and framing economics as an academic discipline and 'the economy' as a social field, while at the same time linking this role both to the material conditions from which ideas originated and to the changes, intended and unintended, that ideas themselves produce upon such material conditions.

In providing these contributions, the method of articulation is particularly helpful also in that it allows us to enrich the Gramscian approach developed with suggestions and insights deriving from other accounts. This articulation is not an eclectic one, but rather again an asymmetrical one. In other words, contributions from other approaches are 'brought in' in the measure in which they are compatible with the Gramscian approach developed and can be reworked in its own terms. This happens for each of the forms of articulation discussed, with modernisation theory and elite-centred approaches being discussed with respect to the economic-political dimension, area studies with respect to the national-international dimension, and social constructivism with respect to the material-ideational dimension. In this way, I hope to provide an account that is flexible but at the same time theoretically coherent.

Why Egypt? Rationale for case selection

The theoretical approach developed in this work is illustrated with reference to the case of Egypt and the economic reforms it experienced in the past two decades. The geographical focus is motivated by three reasons, one for each of the forms of

articulation considered, which supposedly made Egypt more resilient to neoliberal pressures. Firstly, by the end of the 1980s the regime of capital accumulation in Egypt was far away from the neoliberal regime that had become prevalent in several developed and developing countries. Indeed, until the early 1960s Egypt was arguably the country that got closest to the communist bloc with respect to state intervention and direct participation in the economy. In this respect, whereas the *infitah* was meant to reverse this condition, it only marginally succeeded in doing so, particularly as the economy became increasingly reliant on rent. Thus, by the beginning of the 1990s, the state was still by far the largest actor in the Egyptian economy, seemingly discouraging the adoption of an accumulation regime based on the considerable downsizing of state presence in the economy.

Secondly, with respect to interscalar relations, despite showing most of the structural characteristics of peripheral economies, ever since Nasser the economy had been dominated by Egyptian capital, public more often than private. Whereas external financing from other countries, particularly in the form of aid, was always relevant and increasingly so in the wake of *infitah* and the Camp David agreement, what is most striking is that the presence of private foreign capital had always been marginal at best. Considering that foreign direct investment has historically been considered one of the main driving factors of neoliberalisation (Kotz 2002), this element also seems to conjure up against the prospects of neoliberalism in Egypt.

Thirdly, also on the articulation between material conditions and ideas the conditions did not seem particularly propitious. On the one hand, the predominant role of the state in the economy reverberated on the social structure, with the state being effectively able to create its own classes, as it happened with the state bourgeoisie in the 1960s, mostly composed of bureaucrats, technocrats and army members (Hinnebusch 1985), and with the *infitah* bourgeoisie in the 1970s, which despite being formally private and independent still heavily relied on the state for its prosperity. On the other hand, economic nationalism had been the main economic ideology among Egyptian elites even before 1952, as witnessed by the historical work of Vitalis (1995) and EzzelArab (2002). In this respect, the *infitah* had fallen short of producing a change in the political discourse regarding the Egyptian economy.

Other than providing conditions generally hostile to neoliberalism, the Egyptian case also presents a difficult puzzle for mainstream macro-level

explanations. Modernisation and democratisation theory, for example, suggest that reforms aiming at opening up the economy provide the conditions for the development of a strong and autonomous middle class that would in turn push for political opening. In Egypt, it appears that exactly this type of reform weakened, if anything, the local middle class, and on the other hand allowed for the rise of a capitalist oligarchy with little or no interest in moving beyond authoritarian rule. Elite-centred approaches also encounter difficulties. Their key prediction is that rent-based behaviours typical of elites in authoritarian contexts neutralise any substantial restructuring of politico-economic relations, with the political logic of power maintenance taking precedence over the logic of economic efficiency.⁸ Yet, the Egyptian case suggests that reforms went beyond this point, in the direction of a more thorough restructuring of economic relations. Thus, I believe that the Egyptian case forces us to go beyond these mainstream explanations that appear inadequate to grasp the magnitude and direction of the changes experienced by the Egyptian political economy.

Existing approaches inspired by Gramsci also seem to struggle with coming to terms with the unfolding of reforms in Egypt. In particular, both Coxian and transnational historical materialist approaches tend to put too heavy an emphasis on the role of transnational factors in the diffusion of neoliberalism. In this respect, Chris Brown has a point when arguing that Cox's work is theoretically more indebted towards dependency theory than towards Gramsci himself (1994: 221). Contrary to the expectations of most neo-Gramscian approaches, the Egyptian case shows that the pressures towards neoliberalisation, while in some cases effectively hard to resist, are still articulated on the national scale, leading to processes of hybridisation and domestication that prevent considering neoliberalism on the global scale as a coherent whole.

The empirical analysis focuses on three macro-sectors of particular relevance for the Egyptian economy both in material and symbolic terms. On the one hand, transformation of relations in agriculture and manufacturing are particularly important because these were the two sectors constituting the heart of the populist social contract, and thus understanding whether this has been dismantled

⁸ On the conflict between political and economic logic, see Heydemann (1992) and Schlumberger (2008). On the issue of the restructuring and repositioning of the state in order to partially adapt to economic pressures, see Owen (2001) and Tripp (2001).

constitutes an excellent indicator of the success of neoliberalism. On the other hand, the focus on finance is motivated by the domination of the sector on the part of state-owned banks, and by the relevance of the financial sector itself as one of the main channels by which neoliberalism penetrated and was consolidated in several developing countries.

The decision to focus on the last two decades, rather than for example on the whole three decades of Mubarak's rule, is mostly motivated by institutional reasons. 1991 represents a key year in the unfolding of the reform process because in this year the Egyptian government signed the Economic Reform and Structural Adjustment Programme (ERSAP) with the IMF and the World Bank, which would become the first agreement concluded with international financial institutions (IFIs) that Egypt would carry out until its completion. As discussed extensively in Chapter 3, the implementation of most of the reforms suggested by the Bretton Woods twins was a necessary, if not in itself sufficient, condition for a shift in the accumulation regime in a neoliberal direction. On the other end of the timeframe, the empirical work of this thesis stops at the gates of Mubarak's overthrow, to avoid the thesis being dragged too much into current affairs whose future developments appear to be uncertain.

Caveats, or: what you should not expect from this thesis

Rather than being a conclusive test, the study of neoliberal economic reforms in Egypt between 1991 and 2010 serves the purpose of illustrating the empirical value of the alternative Gramscian approach developed in this work. Thus, the aim here is to provide a plausible and hopefully compelling account of the class basis of the neoliberalisation of the Egyptian political economy, while at the same time showing the importance of political and ideational superstructures in determining the final outcome. Coming to a conclusive test of the articulation approach in the cradle of Pan-Arabism, whereas certainly desirable, would have required linguistic competences that I currently do not possess. Similarly, there are some other questions on which this study may cast some tangential light, but these are aspects that I am not primarily seeking to address.

For example, the language issue also foreclosed two extremely interesting yet practically unfeasible avenues for research. On the one hand, the study of emerging forms of counter-hegemony in the face of unravelling state hegemony had to be

somehow neglected. The focus of this study is thus more on the erosion of the sources of state hegemony on the three dimensions upon which articulation occurs than on the rise of alternative political and economic projects put forward by subaltern classes. Such a choice runs the risk of developing what Morton calls a 'political economy of lordships' (2007a: 49).⁹ In order to counter this tendency, the study of transformations in social relations within the ruling bloc is balanced with an appreciation of the impact of economic reforms also on the lower social classes, and particularly on peasants and industrial workers. On the other hand, this study was forced to neglect the analysis of what is arguably one of the most effective superstructures in Egypt, and one that was at the core of Gramsci's concerns: religion. Whereas religion has certainly been a fundamental factor in the transformation of socio-political relations in Egypt, and one whose exploitation has been perfected under Mubarak, both along sectarian lines and more often in a divide-and-rule game with the secular and religious opposition, the choice of leaving religion aside is motivated by the limited impact it had on the neoliberalisation of the Egyptian economy, which constitutes the main focus of this analysis.

Another caveat ought to be made regarding a rather sizeable intervening variable, whose analysis is precluded to most analysts:¹⁰ the presence of a parallel military economy largely off the book. These 'military industries engaged in non-military production', as Hanaa Kheir-el-Din put it, are thought to still constitute a substantial share of the Egyptian economy, which was left virtually untouched by reforms. This has key implications in that it provides the army with an autonomous economic base underpinning its political clout within the regime, while at the same time suggests to tone down the claims about a full-fledged neoliberalisation of the Egyptian economy. Yet, understanding how neoliberalism penetrated the official economy and how it impacted on the whole social structure might be helpful to understand the reasons for the army to feel increasingly threatened by the rise of a capitalist oligarchy that was effectively made possible by neoliberal reforms.

⁹ More specifically, this criticism is levelled against Teschke's account of the twin emergence of capitalist relations of production and the interstate system in the transition to modernity (2003).

¹⁰ The only exception I know of is now more than twenty-years old (Springborg 1989).

Argument in a nutshell and thesis outline

So, what was different this time and why? Until the late 1980s reform efforts in Egypt had been aimed at provisionally improving the financial position of the state before reverting to the same old policies and practices. Departing from this pattern, reforms undertaken since the early 1990s have fundamentally altered the Egyptian political economy. This transformation is best understood with reference to shifting relations of class forces within Egyptian society. Two shifts are particularly notable: on the one hand, within the ruling bloc, reforms have empowered the private sector component *vis-à-vis* other sections of the ruling bloc, effectively transforming most of the *infitah* bourgeoisie into a capitalist oligarchy; on the other hand, in society at large, such reforms have led to runaway inequality, considerably increasing the distance between the ruling bloc and subaltern classes. These shifts had three important implications, one for each of the dimensions on which hegemony is articulated. It is argued that, firstly, the interaction of economic and political factors produced the emergence of a neoliberal authoritarian regime with an ever greater role played by the rising capitalist oligarchy. Secondly, articulation across spatial scales brought about a passive revolution managed by the state with the aim of adapting to the globalising imperatives of capital accumulation carefully avoiding any meaningful broadening of political participation. Lastly, the performative power of neoliberalism as an ideology fundamentally reshaped the boundaries of economic policy-making in favour of Egyptian large private capitalists. All these developments suggest that the main domestic sources of state hegemony in Egypt dried up over the past two decades, and that the shift to a neoliberal accumulation regime appears to be the main reason for this.

In the attempt to substantiate this argument, the thesis proceeds in the following way. Chapter 1 identifies the common thread underlying Gramsci's writings in the 'philosophy of praxis', best understood as a form of historical dialectical materialism. This provides the basis for a critique of Cox's interpretation of Gramsci on epistemological, methodological and analytical grounds, and for the development of an alternative understanding of Gramsci on these same three levels. This approach also has substantial implications for the meaning and functioning of hegemony. In particular, after discussing how hegemony has been conceived both in mainstream and critical IR theory, the potential of the articulation approach

towards understanding the constitution, reproduction and transformation of hegemony is assessed.

Building up on this approach to Gramsci, Chapter 2 locates it within the broader debates on the three dimensions around which hegemony is articulated. With respect to the interaction of economic and political factors, the discussion revolves around the accounts provided by modernisation theory and elite-centred approaches. On interscalar articulation, the thesis of the transnationalisation of the state suggested by neo-Gramscian scholars is contrasted with the continued relevance of the state maintained by most Middle East specialists. Lastly, the implications of both neo-Gramscian and social constructivist approaches on the relation between material conditions and ideas are discussed.

Considering that the very starting point of this thesis, i.e.: the neoliberalisation of the Egyptian economy, is still contested in the literature, Chapter 3 attempts to convince the reader that what economic reforms have produced in Egypt over the past two decades does amount to a shift from an *étatist* towards a neoliberal accumulation regime. After providing a broad-brush picture of the transformations of the Egyptian political economy from 1952 to 1990, it discusses firstly macroeconomic stabilisation and structural adjustment, before moving to the second wave of reforms implemented after the appointment of a 'reformist' cabinet in 2004. Most importantly, the chapter assesses the impact of these reforms on the agricultural, manufacturing and financial sector, suggesting that Egypt effectively underwent a process of neoliberalisation.

Once the magnitude of these economic transformations has hopefully been established, the following three chapters illustrate how articulation on the dimensions outlined above influenced, and was influenced by, such changes. Chapter 4 focuses on what was the form of these changes, relating economic and political factors. Whereas modernisation theory tends to assume too direct a link between economic and political change, and elite-centred approaches maintain a neutralisation of economic factors effected by political power, the articulation approach suggests that the interaction of the economic and the political leads to the emergence of a peculiar politico-economic configuration that I term *neoliberal authoritarianism*. However, this new configuration is not merely a combinatory outcome, but rather the result of an articulation that in many respects alters both neoliberalism and authoritarian rule. This is seen in particular with reference to the

increasing political role of the business elite, the privatisation of state functions in the hands of select members of the ruling bloc, and the importance of old and new informal practices mediating the implementation of economic reforms. Interestingly, it appears that the relative autonomy of the political increases as the economic rise of the capitalist oligarchy is matched by their concomitant political rise.

Chapter 5 focuses on the spatial sources of this neoliberal turn, thus moving along the international-national dimension discussed in Chapter 2. Considering the national scale as nodal makes it possible to see how the state plays a role that goes well beyond that of transmission belt of global trends. Rather, the state makes use of its relative autonomy to 'domesticate' the globalising tendencies of capital, effecting a passive revolution by which adaptation of neoliberal globalisation is accompanied by continued reliance on the same exclusionary political regime, albeit with a different balance of forces within the ruling bloc. More specifically, this is analysed with reference to the institutional relations between actors on the international scale, ranging from IFIs to major donors, and the Egyptian government. Evidence seems to suggest that the relative autonomy of the national scale increased as outward-oriented private capitalists became more prominent in the ruling bloc.

The reasons for the neoliberalisation of the Egyptian political economy are then analysed in Chapter 6, which discusses the articulation of material conditions and ideas in producing this transformation. The argument here is that the role of economic ideas is best understood if these are situated socially, and more specifically if they are related to the class and class factions empowered or weakened by them. At the same time, it is suggested that once settled within a society, ideas may take a life of their own, eventually contributing to reshaping those material conditions from which they originated. Empirically, the chapter focuses on the creation of the two most important economic think-tanks in Egypt, and on their academic production, in order to evaluate their role in recasting the economic policy discourse along lines advantageous to the rising capitalist class. Also in this case it appears that the relative autonomy of ideas increased with the empowerment of the new bourgeoisie.

Lastly, the conclusion evaluates how changes in these three forms of articulation impacted on the constitution, reproduction and transformation of hegemony in Egypt, substantially undermining its domestic foundations and eventually providing the basis for the popular revolts leading to the end of Mubarak's regime.

Indeed, whereas the final outcome at the time of writing looks as open-ended as ever, the revolution itself appears to validate Mohieldin's intuition: this time was different.

Chapter 1

RECOVERING THE PHILOSOPHY OF PRAXIS: GRAMSCI, HEGEMONY AND THE GLOBAL POLITICAL ECONOMY

1.1. Introduction

Since his introduction to IR and IPE in the early 1980s, Antonio Gramsci has become an important reference point for scholars interested in bridging the analysis of economic structure and political and ideational superstructures. This common interest has led to a proliferation of interpretations, with scholars calling Gramsci to support arguments related to the emergence of a global civil society (Lipschutz 1992), to the prospects of a post-liberal democracy (Golding 1992), to a cultural turn in post-colonial theory and subaltern studies (Harris 1993). Whereas it is understandable that more than two-thousand pages scattered with notes might lead to interpretive divergences, and whereas such diversity is to be welcome, the main risk is that anyone builds up his/her own *prêt-à-porter* version of Gramsci. And if Gramsci's work deserves any attention, 'it is because his philosophical assumptions do preclude some interpretations of his thought *in general*, and support others' (Morera 1990: 1, emphasis added). It is only wise to assume that in twenty-nine notebooks written in more than seven years in prison one necessarily develops his thought, sometimes contradicting himself, sometimes venturing tentatively into uncharted paths that may be followed through, re-elaborated or abandoned altogether in subsequent notes. This is why it is imperative to have as clear as possible an idea of what is Gramsci's thought 'in general'. But how should we proceed in fulfilling this task? The *Prison Notebooks* themselves lend a helpful hand in this respect. As Stuart Hall put it: 'It is, after all, Gramsci himself who first taught us how to "read Gramsci"' (1991: 7):

If one wants to study a conception of the world that has never been systematically expounded by its author-thinker, detailed work is required, and it has to be conducted with the most scrupulous accuracy and scientific honesty. It is necessary, first of all, to trace the process of the thinker's intellectual

development in order to reconstruct it in accordance with those elements that become stable and permanent – that is, those elements really adopted by the author as his own thought, distinct and superior to the ‘material’ that he had studied earlier and that, at a certain time, he may have found attractive, even to the point of having accepted it provisionally and used it in his critical work or in his work of historical or scientific reconstruction. This precaution is essential, particularly when dealing with a nonsystematic thinker, with a personality in whom theoretical and practical activity are indissolubly intertwined, and with an intellect that is therefore in continuous creation and perpetual movement. Hence: (1) biography in great detail, and (2) exposition of all the works, in chronological order, sorted according to the different phases: intellectual formation, maturity, the grasp of a new way of thinking, and its confident application. The search for the *leitmotiv*, the rhythm of thought, more important than single, isolated quotations (1996: 137, Q4§1).¹¹

As the elaboration of a Gramscian approach is only the starting point of this research, and thus we have much more to go through, I spare the reader the long process of biographical and bibliographical research, and maintain that the underlying thread – the *leitmotiv* – is the conception of ‘philosophy of praxis’, which best encapsulates Gramsci’s own brand of Marxism, defined here as *historical dialectical materialism*. Within IR and IPE, there have been sporadic works tackling Gramsci’s dialectical theory of history, centred around the concept of ‘absolute historicism’ (Morton 2007a: 24-36). Other studies have discussed the dialectical nature of Gramsci’s Marxism, referring to Olman’s definition of ‘philosophy of internal relations’ (Bieler and Morton 2008: 115-6). Many others, from Robert Cox onwards, have discussed Gramsci’s peculiar definition of materialism which sees ideology playing a fundamental role in the material constitution of reality. Yet, to my knowledge, within the discipline there are no works which explicitly pull these threads together: the historical, the dialectical and the materialist.

Thus, this chapter starts from discussing what Gramsci means by philosophy of praxis, and how it develops in the *Prison Notebooks* as historical dialectical

¹¹ Following an increasingly common convention among ‘Gramsciologists’, the quotations from the *Prison Notebooks* are referenced in this way: (i) year and page of the edition from which the quotations is taken; (ii) notebook number (Q); (iii) note number (§). With respect to (i), not all the notebooks have been translated into English. Thus, I translated those quotations which have never appeared in English referring to the 1975 Italian complete edition. Same applies for the volume of the *Letters from Prison*, published in Italy in 1965.

materialism. Once this new route into Gramsci's thinking is established, the following section takes on the most influential interpretation inspired by Gramsci within IR and IPE, thus discussing the work of Robert Cox, which is criticised on epistemological, methodological and substantive grounds, leading to a clarification of how Gramsci is interpreted here on those very three levels. The last section explores the implications of the Gramscian approach developed here for hegemony, a crucial concept for both mainstream and critical scholars in IR and IPE. In particular, this study focuses mostly on the exercise of hegemony on the part of the state and its ruling bloc, and thus for this purpose hegemony is considered here as a combination of coercion and consent. Importantly, rather than assuming it away, the specific form taken by hegemony is considered as shaped by articulation on three dimensions, respectively between the economic and the political, the international and the national, the material and the ideational.

1.2. Philosophy of praxis as historical dialectical materialism

Being well aware that his notebooks were to be closely inspected by suspicious yet not particularly well-read censors, Gramsci had to elaborate some strategy of concealment for his notes to survive, and make possible the realisation of the long-lasting project he had in mind.¹² So, for example, instead of writing 'Marx's *Capital*' he always used 'critique of the political economy', instead of 'historical materialism' or 'Marxism' he used 'philosophy of praxis'. In much the same way, Marx and Engels in the notebooks systematically become 'the founders of the philosophy of praxis'. Whereas it is arguably true that 'philosophy of praxis' was used as surrogate for historical materialism and Marxism in the first notebooks, as time goes by and notes become more elaborate one can see how the concept starts to be charged with peculiar elements, beyond – and sometimes away from – historical materialism as developed by Marx and Engels.¹³ Thus, the phrase 'philosophy of praxis' is 'an accurate characterisation of his theoretical perspective as part of a

¹² In a letter to his sister-in-law Tania written in 1927, two years before the actual drafting of the notebooks started, Gramsci said: 'I am obsessed (and this fact is typical of prisoners, I suppose) by this idea: that there would be need to do something *für ewig*, following a complex conception by Goethe. [...] In sum, following a predetermined plan, I would like to occupy myself intensely and systematically of some subject that would absorb and centralise my inner life' (1965: 58).

¹³ For the sake of linguistic accuracy, it is worthwhile reminding the reader that Marx never used the phrase 'historical materialism' to refer to his own perspective. Rather, he preferred to speak of 'the materialist conception of history'.

long-standing tradition opposed to positivist, naturalist and scientific deformations of Marxism' (Piccone 1976: 37). And indeed, this expression is already in its own semantics an attack against mechanistic versions of Marxism, in that – by referring to praxis – Gramsci emphasises the importance of agency and of the strategies that political actors devise in order to achieve what they wish for. In much the same way, by linking philosophy to praxis, it is also an attack on speculative forms of idealism, that divorce theory from practice, leading to 'a mutilation of Hegelism and the dialectic' (1975: 1220, Q10I§6).

I argue that in the mature Gramscian formulation, the philosophy of praxis is better understood as *historical dialectical materialism*.¹⁴ The first term refers to Gramsci's conception of history as both contingency and necessity. The second refers to Gramsci's use of the dialectic as both interaction of opposites within unity and process of thesis, antithesis and synthesis. Lastly, materialism is conceived as the transcendence of metaphysical and sectarian conceptions of both materialism and idealism, towards an integral philosophy that is at once 'absolute humanism' and 'earthliness of thought' (1971: 465, Q11§27).

1.2.1. *Gramsci's theory of history*

'It has been forgotten that in the case of a very common expression [historical materialism] one should put the accent on the first term – "historical" – and not on the second, which is of metaphysical origin. The philosophy of praxis is absolute "historicism", the absolute secularisation and earthliness of thought, an absolute humanism of history. It is along this line that one must trace the thread of the new conception of the world' (465, Q11§27). In a time where Marxism was being led through the Second International in the shallows of determinist and mechanistic interpretations, this remark to pay more attention to history than to materialism itself, implying that without the former the latter slips back into its primitive metaphysical meaning, is arguably the strongest signal of the importance that Gramsci gives to history. History is first of all defined as a progressive process, thereby implying some line of immanent development of events. Such conception carries itself an inherent tendency towards determinism, which is eschewed by

¹⁴ To my knowledge, the first explicit formulation of this phrase to characterise Gramsci's thought is to be found in Luporini, that makes this point almost as if it were a triviality: 'Central in his thought is historical materialism itself (to be conceived, needless to say, as *historico-dialectical* materialism)' (1958: 42, original emphasis).

treating history also as contingency, as a conjuncture with its own specific parameters, in economic, political and ideological terms, and therefore necessarily open-ended. It is in this dialectical treatment of history that Gramsci's philosophy of praxis starts to take shape.

History-as-necessity comes from a fundamental aspect of Hegel's philosophy of history, critically accepted by Marx and hence an integral part of historical materialism. However, the Hegelian philosophy of history as the dialectical progression towards the realisation of freedom has two main flaws in the eyes of Gramsci. Firstly, despite being able to overcome the separation between thought and matter, Hegel, by giving priority to the former, can see freedom only as 'freedom of the Spirit' (1975: 1229, Q10I§10), and therefore he is unable to 'unify practical moment and speculative thought' (1826, Q15§61). Secondly, by emphasising the role of necessity, the Hegelian philosophy of history is inherently teleological. In this respect, Gramsci recalls an epigram by Goethe - 'cork [raw material] was not born to make cork [to seal bottles]'¹⁵ - to dismiss in a rather sarcastic fashion this teleological tendency, that is even more evident in the work of Croce, whose history is 'history by design' (1975: 1327, Q10§41).

Only a fuller conception of history, combining necessity and contingency, is able to overcome the teleological risks of both idealism and materialism when they sever the dialectical relation between theory and praxis. In this respect, the concept of *historicism* is equally important in understanding Gramsci's own philosophy of history. According to Adam Morton, who has worked extensively on the concept of 'absolute historicism' frequently used in the *Prison Notebooks* (2007a: 15-38), this is to be intended not as 'absolutely historicist', but rather as 'absolute + historicist'. In other words, by this concept Gramsci aims to internalise the dialectical character typical of idealist historicism, but also to make it absolute by transforming it into an immanent element of his own philosophy (1434-7, Q11§27). The methodological implications of this point are by no means marginal. Every conception of the world as much as every historical structure is composed of organic and conjunctural elements. The first ones have the character of historical necessity ascribed to them by Hegel, in that they become real, and because of their realisation they are also

¹⁵ It is rather ironic that English language actually internalises this teleology with respect to the term 'cork', used for both the raw material and its most used final product. This does not happen in Italian, with the raw material called *sughero* and the final product *tappo*.

rational, necessary. Conjunctural elements are transient, which means that once the conditions for their existence have disappeared, they are not active anymore, and therefore become irrational.¹⁶ Accordingly, if it is to be of any help for understanding the present, the application of a philosophical system of the past has to define the organic elements by a reality-check that sees whether they are still active in the 'effective reality' or whether they have exhausted their historical function.

Gramsci himself summarised best his conception of historicism, albeit indirectly: 'How the present is a *criticism* of the past, besides [and because of] "surpassing" it. But should the past be discarded for this reason? What should be discarded is that which the present "intrinsically" criticises and that part of ourselves that corresponds to it. What does this mean? That we must have an exact consciousness of this real criticism and express it not only theoretically but politically. In other words, we must stick closer to the present, which we ourselves have helped create, while conscious of the past and its continuation (and revival)' (1992: 234, Q1§156, original emphasis).

1.2.2. *Two-dimensional dialectic*

Quite simply, the dialectic is for Gramsci 'a doctrine of knowledge and the very marrow of historiography and the science of politics' (1971: 435, Q11§22). Yet, back in 1958, Norberto Bobbio lamented the lack of attention to this critical concept: 'It does not seem to me that the issue of the dialectic in Gramsci has been faced with the attention that the importance of the concept requires. Yet for understanding the philosophy of a Marxist writer it is useful to start from the concept he has of the dialectic and from the function assigned to it' (1958: 73). More than half-century has passed, and significantly Bobbio's article is arguably the best treatment of the dialectic in Gramsci to date.¹⁷ But then, what is the Gramscian definition of the dialectic?

¹⁶ This applies also with respect to the present: 'Ways of life appear to those that live them as absolute, "as natural", as we say, and [...] it is already a great thing to show their "historicity", to show that they are justified in that some conditions exist, but when these change they are not justified any longer, they become "irrational"' (1975: 1727, Q14§67).

¹⁷ The only book-length effort on this issue, written by Finocchiaro (1988), analyses the Gramscian conception of the dialectic from a perspective largely incompatible with the Gramscian one, in that – by using the tools of analytic philosophy – it severs the link

I argue that in the *Prison Notebooks*, Gramsci elaborates a two-dimensional conception of the dialectic, intended at the same time as: (i) interaction of opposites within unity; (ii) process of thesis, antithesis and synthesis.¹⁸ The first meaning is what Engels had called the compenetration of the opposites, whereas the second is the typical Hegelian meaning, which Engels would later call 'negation of the negation', and that is held by some to be the typical Gramscian use of the concept, therefore drawing Gramsci closer to Croce and speculative idealism (Bobbio 1958; Piccone 1974; Finocchiaro 1979 and 1988). However, I deem the first use to be just as important, in that it allows 'philosophy of praxis' to be both philosophy and praxis, establishing a dialectical relation between theory and practice, one of the couple of opposites on which Gramsci insists the most in his notes. The Gramscian conception of the dialectic emerges out of the double critique that he carries out, respectively against the speculative idealism of Croce and the mechanistic materialism of Bukharin.

Croce uses the dialectic as a process of thesis-antithesis-synthesis, but – by elaborating the concept of the 'dialectic of the distincts' – he does not use it as interaction of opposites within unity, and this is particularly true in the case of the relations between such pairs of opposites such as theory and practice, but also structure and superstructure. For Gramsci, engaging with Croce and his writings was necessary for two reasons. Firstly, Croce was by far the most influential figure within the Italian intellectual and cultural scene, so much that Gramsci once referred to him as the 'lay pope' (1965: 481), and also the most prominent representative of neo-Hegelianism. Thus, Croce was meant to be for Gramsci what Dühring had been for Engels (1971: 371, Q11§51). Secondly, Croce had dealt extensively with historical materialism, even if in an overly dismissive way.¹⁹ However, Croce's application of the dialectic is much less than satisfactory in the eyes of Gramsci, as it divorces

between theory and practice, limiting itself to make 'arguments about arguments', as Finocchiaro himself admits in a later book (2005).

¹⁸ In his scrupulous philological work, Bobbio argues that the first meaning is more common in conjunction with 'relation', 'nexus' and also 'unity', whereas the second meaning is usually accompanied by words such as 'movement', 'process', 'development', 'becoming' (1958: 76-7).

¹⁹ The two main critiques made by Croce to historical materialism are the following: (i) the structure-superstructure distinction is a replication of theological dualism, with the former being detached from and determining the fate of the latter; (ii) the claim of scientificity held by Marx and Engels is unwarranted at best, and criminal at worst. See Croce (1968). However, Gramsci praises Croce for translating into 'speculative language the progressive acquisitions of the philosophy of praxis [historical materialism]' (1975: 1271, Q10II§31).

theory from practice – the two opposites that Gramsci aims to unify through the philosophy of praxis. To make but one example, in the process of becoming Croce does not see becoming in practice, but only the ‘concept’ of becoming (1975: 1240, Q10II§1). In this way Croce operates an amputation and domestication of Hegelian dialectic, which Gramsci ascribes to the immediate political interests that drive Croce’s work (1221, Q10I§6). Thus, because of this partial use of the dialectic, Gramsci considers Croce to be non-dialectical.

On the other hand, Bukharin is charged as well for having amputated the dialectic, because in his *Historical Materialism* he posits too rigid a distinction between the general and the particular, between what he calls Marxist philosophy and Marxist sociology (Zanardo 1958). The dialectic in Bukharin is exclusively intended as the Engelsian ‘compenetration of the opposites’, but even in this respect, the separation of philosophy from sociology and the focus on the second have significant implications. In particular, Gramsci points out how this approach resolves itself in a popularisation of historical materialism not in the direction of raising the cultural level of the subaltern groups. Rather, by rejecting the conception of the dialectic as a process of thesis, antithesis and synthesis, and by simplifying historical materialism, Bukharin goes back to vulgar and mechanistic materialism, a closed system where the role of agency is forsaken in favour of an all-powerful structure (1975: 1422-6, Q11§26). This is why Bukharin neither can be considered a dialectical thinker from the two-dimensional perspective adopted by Gramsci.

In sum, while Croce uses the dialectic *à la Hegel* but not *à la Engels*, Bukharin does the opposite, focusing only on the interaction of opposites within unity at the expense of the dialectic as process of thesis-antithesis-synthesis. Gramsci maintains that both these dimensions of the dialectic are integral to philosophy of praxis, and therefore criticises Croce and Bukharin for being non-dialectical thinkers. Or, to put it better, and less influenced by polemical intents, for not being dialectical enough.

1.2.3. *Materialism beyond materialism*

In the double movement of critique that allows Gramsci to get to his philosophy of praxis, Gramsci is not attacking idealism or materialism *per se*. In his critique of Croce, the target is the speculative element of his idealism. In much the same way, it is the mechanistic element of Bukharin to be under attack, and not his materialism. The English editors of the *Selection from the Prison Notebooks* are correct when they

argue that Gramsci 'locates the main enemy of the philosophy of praxis not in idealism as such but in transcendence and metaphysics' (Hoare and Nowell Smith 1971: 378). Thus, in as much as they find their driving force and explanatory principle only within themselves, being respectively isolated from matter and thought, both speculative idealism and mechanistic materialism are metaphysical conceptions in the eyes of Gramsci, and as such should be rejected.

In a long note titled 'Questions of Nomenclature and Content', Gramsci embarks on a rigorous philological study of the semantic evolution of the term 'materialism', by arguing that the conceptual content of the term had been enlarged already by Marx and Engels, but 'philosophical dilettantism' and 'a lack of an historical sense in grasping the different moments of a process of cultural development' had made possible the conceptual confusion that led many commentators to lend a metaphysical materialist character to historical materialism. He then goes on to praise Lange and his *History of Materialism*, arguing that he 'is a conscientious and acute historian who has a quite precise, definite and limited conception of materialism and therefore, to the great surprise and even indignation of certain people (such as Plekhanov) does not regard as materialist either historical materialism or even the philosophy of Feuerbach. Here again one can see how the terminology is conventional but not without importance in making for errors and deviations as soon as one forgets that it always necessary to return to the cultural sources in order to identify the exact value of concepts, since there may be different heads under the same hat' (1971: 456, Q11§16).²⁰

In one of the few passages where the distinction between material and ideational elements is made explicit, Gramsci argues that 'the distinction between form and content has purely didactic value, since the material forces would be unconceivable historically without form and the ideologies would be individual fancies without the material forces' (1971: 377, Q7§21). But then, how is the philosophy of praxis supposed to deal with materialism and idealism? In a note on the dialectic of unification and separation between the two moments of thought, Gramsci implicitly sets up the task (1971: 396, Q16§9):

²⁰ Yet again, another call to historicise and contextualise concepts, without discarding them completely.

Hegel, half-way between the French Revolution and the Restoration, gave dialectical form to the two moments of the life of thought, materialism and spiritualism, but his synthesis was “a man walking on his head”. [...] The philosophy of praxis, through its founder, relived all this experience of Hegelianism, Feuerbachianism and French materialism, in order to reconstruct the synthesis of dialectical unity, “the man walking on his feet”. The laceration which happened to Hegelianism has been repeated with the philosophy of praxis [historical materialism]. That is to say, from dialectical unity there has been a regress to philosophical materialism on the one hand, while on the other hand modern idealist high culture has tried to incorporate part of the philosophy of praxis which was needed in order for it to find a new elixir.

Accordingly, it is the goal of the philosophy of praxis to be able to provide a new synthesis of materialism and idealism, under the aegis of a two-dimensional conception of the dialectic, which also allows us to consider history and practice as open-ended combinations of necessity and contingency, and where even philosophical systems from the past can be re-actualised, and adopted beyond their original context.

1.3. Towards a non-Coxian interpretation of Gramsci

After delineating the underpinnings of the Gramscian philosophy of praxis, surprisingly underestimated in IR and IPE, I deem necessary to shed light on the inconsistencies between the Coxian interpretation of Gramsci and the reading suggested by the meta-theoretical considerations above. It is important to highlight at the very outset that Cox has always rejected the definition of neo-Gramscian, and that he would rather call himself ‘historical materialist’ (Cox 1981: 133, 2002: 26-29). This is by no means secondary for the argument developed here, as it shifts the focus of my critique from Cox himself to those neo-Gramscian scholars who have based their understanding of Gramsci on the admittedly eclectic Coxian interpretation.²¹

²¹ One could argue that Gramsci was eclectic just as much as Cox, and that this could be a point *for* Cox, rather than *against* him. However, Gramsci’s use of concepts coming from Machiavelli, Vico, Croce, Cuoco, Bergson and Sorel is firmly rooted within its conception of philosophy of praxis fleshed out before (also see Haug 2000). On the contrary, Cox is eclectic even in his foundations, as is shown in this section.

It ought to be said at this point that this Gramscian critique of neo-Gramscian scholarship is not a tedious exercise in some supposed Gramscian 'purity' towards the affirmation of truth, as such a test would never be conclusive, considering the elliptic and sometimes contradictory character of the writings of the Italian Marxist. Rather, critically engaging with Cox is necessary because of his influence on the reception of Gramsci's thought in IR and IPE.²² Thus, the aim of this section is to move beyond Cox and retrieve the lost dimension of Gramsci within IR and IPE, which resides in the implications of his philosophy of praxis outlined above for his more used concepts, such as hegemony and passive revolution.

1.3.1. *From Robert Cox to the neo-Gramscian school*

Robert Cox's work is just as un-orthodox as the road that led him into academia.²³ In the words of Susan Strange, he is 'an eccentric in the best English sense of the word' (1988: 269). Despite his gradual shift in focus from hegemony and relations of production in IR towards a concern with ethical and civilisational issues, there is little doubt that three early pieces of his work constitute the gravitational centre around which the neo-Gramscian school has developed (1981, 1983 and 1987). It is exactly because of their relevance in the establishment of a new school of thought within IR/IPE that these pieces are the focus of my analysis and critique.

In pursuing his ambitious aim of providing a critical theory of IR, Cox is admittedly eclectic, and he draws from such diverse sources as Leibniz and Vico, Sorel and Gramsci, Polanyi and Braudel. All these thinkers have at least one outstanding commonality: they had been mostly ignored by mainstream IR.²⁴ Their retrieval certainly goes to Cox's credit. Within the original synthesis that he provides, and that finds its most elaborate form in *Production, Power and World Order*, it is not hard not to discern that Gramsci is at least a *primus inter pares*, constituting the main source of inspiration for Cox's theory. In particular, three

²² On a rhetorical level, furthermore, this engagement allows to revive Gramsci's style, that was mostly polemical in nature, as he admitted in a letter dated December 15, 1930: 'all my intellectual development has been of a polemical sort [...], ordinarily it is necessary to place myself from a dialogical or dialectical point of view, otherwise I do not feel any intellectual stimulus' (1965: 390).

²³ After graduating at McGill in 1946, Cox worked for more than two decades at the International Labour Organisation (ILO) in Geneva. Only in the early 1970s he left the organisation, and started teaching at Columbia University before going back to his native Canada and settling down at York University (Cox 1996: 19-38).

²⁴ An exception in this respect is the explicit use of Polanyi's 'double movement' made by Ruggie in his famous article on 'embedded liberalism' (1982: 385-392).

Gramscian elements are at the core of Cox's work: historicism, hegemony and what Cox calls the 'state-society complex'.

I just mentioned that Cox's aim is to construct a critical theory of IR. Critical of what? To understand this, before going in any detail into the content of such theory, one needs to uncover the key epistemological principle upon Cox's work is based: the distinction between problem-solving and critical theory (1981: 128-30). *Problem-solving theory* serves the purpose to 'help solve the problems posed within the terms of the particular perspective which was the point of departure'. Following from this, problem-solving theory takes 'the prevailing social and power relationships and the institutions into which they are organised, as the given framework for action'. Therefore, for problem-solving theory is not only feasible but also attractive to divide the social world into relatively separate spheres of action, where limits and parameters are fixed (the *ceteris paribus* assumption). Such a procedure allows to identify regularities between specific events, and by this to solve problems within the parameters given, hence the definition of 'problem-solving theory'. On the other hand, *critical theory* is 'more reflective upon the process of theorising itself', starting from the Coxian oft-quoted punchline: '[t]heory is always *for* someone and *for* some purpose' (1981: 128). Critical theory does not take for granted those parameters that allow problem-solving approaches to deal 'effectively with particular sources of trouble', but rather questions them in their deepest foundations, by asking how they came about. In opposition to the disciplinary separation typical of problem-solving theory, critical theory 'leads towards the construction of a larger picture of the whole of which the initially contemplated part is just one component, and seeks to understand the process of change in which both parts and whole are involved'. Understanding such process of change is not simply an analytical goal, but is a first step towards a normative goal: opening up the fractures within the existing order to change it towards 'a more participant society' (1987: 224).

Whereas problem-solving theory is non-historical or ahistorical, critical theory is 'theory of history in the sense of being concerned not just with the past but with a continuing process of historical change'. This further distinction is the basis of Cox's *historicism*, the first element of Gramscian derivation in his theory, even though the very concept came much before Gramsci himself, finding its roots in the work of the Neapolitan thinker Giambattista Vico. For Cox, historicism is the foundation of the 'method of historical structures', the key methodological device

for breaking the social world down into spheres of activity in order to make analysis manageable. By historical structure, Cox means 'a particular combination of thought patterns, material conditions and human institutions which has a certain coherence among its elements' (1981: 135). In other words, historical structures are made up of material capabilities, institutions and ideas. Material capabilities are defined as 'productive and destructive potentials', ideas are considered both as intersubjective meanings and as alternative ideologies, and institutions are considered as emergent from the previous two, but not reducible to them, in that '[e]ventually, [they] take their own life' (1981: 136). Another triad – world order, states, and social relations of production – identifies the three historical structures at the core of Cox's theoretical framework. Each of them is thus composed of a particular combination of material capabilities, institutions and ideas.

The second element of Gramscian derivation in Cox's theory is his use of *hegemony*. In this respect, Cox takes issue with theorists of hegemonic stability, because of their narrow materialist understanding of the term. Against such trend, he argues for a broader concept, where an ideational dimension features prominently. Gramsci is instrumental in this respect, even though Cox does not make explicit reference to his conception of hegemony in the 1981 article. Finally, the third element that Cox borrows from Gramsci is the *complex relation between state and civil society*, categories which retain 'a certain analytical usefulness but ceased to correspond to separable entities in reality' (1983: 164). The meaning and function given by Cox to both hegemony and the 'state-society complex' is discussed in much greater detail in the next section. Suffice to say here that a hegemonic structure, exactly because of the balanced mix of material resources, appealing ideas and successful institutions it contains, is more stable than a non-hegemonic one. Within this picture, the driver of structural change is to be found in the construction of a counter-hegemony, which requires 'a coherent view of an alternative world order, backed by a concentration of power sufficient to maintain a challenge to core countries' (1981: 150).

Regardless of his reluctance to accept the label of neo-Gramscian, it is undeniable that Cox's writings have had a substantial role in the so-called 'Gramscian turn' in international studies (Germain and Kenny 1998). Despite

significant internal differentiations,²⁵ and some very notable exceptions,²⁶ most neo-Gramscian scholars have relied on Cox's seminal work to develop their understanding of Gramsci.

1.3.2. *Threefold critique of the 'Coxian Gramsci'*

Earlier we have defined the philosophy of praxis as much more than a clever way of concealing Marxism from the eyes of the censor. Rather, I have argued that this phrase embodies Gramsci's own conception of Marxism, defined as 'historical dialectical materialism'. How does Cox's interpretation of Gramsci relate to this understanding of the philosophy of praxis? I argue that it is possible to criticise the 'Coxian Gramsci' on the three different grounds: (i) epistemological, (ii) methodological, (iii) analytical.

At the *epistemological level*, Cox's interpretation of Gramsci is biased by the distinction between problem-solving and critical theory underlying his whole work.²⁷ Such a reading is well beyond any philological or 'symptomatic' reading of Gramsci.²⁸ Let me go back to Cox's punchline: '[t]heory is always *for* someone and *for* some purpose'. This brief sentence is extremely appealing in that it reveals an aspect obscured by mainstream IR: every theory is an interpretation of reality from a specific vantage point, and thus emphasises some aspects to the detriment of others. In other words, it refutes one of the two founding principles of philosophical realism: the 'correspondence theory of truth', which maintains that our knowledge of the world mirrors the world itself. By defining problem-solving theory as inevitably status-quo oriented and critical theory as inherently towards emancipation, it inserts a normative element in the epistemological distinction. By

²⁵ For example, Worth (2008) distinguishes between the Amsterdam school, mostly concerned with the study of transnational classes (Van der Pijl 1984 and 1998; Overbeek 1990 and 1993; Sklair 2001; Van Apeldoorn 2002 and 2004), and the Italian - or more appropriately Coxian - school, which focuses on the concept of world order and its economic, political and cultural implications (Gill 1990, 1993 and 1995; Rupert 1995).

²⁶ In particular, I am referring to the meticulous philological and interpretive work carried out by Adam Morton (2007a), and to a couple of edited volumes that import interpretations of Gramsci from political theory, linguistics and cultural studies in IR (Bieler and Morton 2006; McNally and Schwarzmantel 2009).

²⁷ On the unwelcome consequences of this distinction for critical IPE as a whole, see Cammack (2007)

²⁸ The concept of 'symptomatic reading' was first advocated by Mouffe (1979) and then developed by Laclau and Mouffe (2001) in their seminal study of hegemony in political theory.

doing this, Cox denies the distinction between facts and values at the heart of positivist epistemology.

On the other hand, Cox is not equally clear on where his theory stands with respect to the other fundamental principle of philosophical realism: the existence of a reality independent from the knowing subject. Such lack of clarity arguably derives from the polemical battle that Cox was waging: being his main target mainstream IR theory, his own critique was much more focused on positivism, indeed at the time dominant in IR, and thus somehow neglects Gramsci's critique of speculative idealism. As a consequence, there are instances where Cox's understanding of social reality is remarkably close to idealist positions, with objectivity being conflated with shared intersubjectivity. This is best elucidated by referring to the Gramscian and the Coxian definition of historical bloc.²⁹ For Gramsci, the historical bloc represents the dialectical unity of structure and superstructure. On the other hand, Cox understands the historical bloc in purely intersubjective terms, as a relation between specific social groups in a given historical conjuncture (1987: 7). Similarly, '[a] hegemonic order is inscribed in the mind. It is an intersubjective sharing of behavioural expectations' (Cox 1996: 245). In other words, whereas Cox never rejects explicitly the existence of a theory-independent reality,³⁰ his position oscillates between the classical historical materialist stance that sees an objective reality to be explained and a theory that at times unfolds as if this was not the case.

The philosophy of praxis provides a much clearer grounding on this. From a close reading of his notebooks, it appears that Gramsci endorses the rejection of the correspondence theory of truth, but still maintains that 'there is a world out there'. On the first aspect, Gramsci's viewpoint is best expressed by this note, unsurprisingly titled 'Objection to empiricism' (1971: 461, Q17§23):

²⁹ The concept of historical bloc is discussed in greater detail in the next section on hegemony.

³⁰ In articulating his critique of reflexivism from within the Coxian school, Morton (2007b) recalls the first sentence of *Production, Power and World Order* - 'Production creates the material basis for all forms of social existence' (1987: 1) - and uses it to argue that Cox aims to build a critical theory that is still compatible with the acceptance of the existence of an external reality. My argument here is that Cox's position oscillates between the two poles of acknowledging a theory-independent realm of facts and developing his theory as if this were not the case.

How can there take place a choice of facts to be adduced as proof of the truth of one's own assumption if one does not have a pre-existing criterion of choice? But what is the criterion of choice to be, if not something superior to each single fact under enquiry? An intuition, a conception, which must be regarded as having a complex history, a process that is to be connected with the whole process of the development of culture (etc.).

Therefore, history and culture shape our way of perceiving external reality, and therefore affect our theories. However, such a critique of positivism does not prevent Gramsci from accepting the second principle, the existence of a theory-independent realm of facts. Gramsci's philosophical position is based 'on an awareness of the simple and fundamental fact that there exist objective, intractable laws to which man must adapt himself if he is to master them in his turn' (1971: 34, Q12§2). It is only at this stage that external reality is encapsulated into our historically- and culturally-influenced world of meaning. To put it in Femia's words, Gramsci 'is denying not the *existence* of a nature prior to the human spirit, only to the *relevance* or *intelligibility* of such a natural order' (1981: 106). Such a statement is exemplified in a note on 'matter', where Gramsci refers to electricity and its 'mastering' by man. It is worthwhile to reproduce the paragraph entirely (1971: 466, Q11§30):

Electricity is historically active, not merely however as a natural force (e.g. an electrical discharge which causes a fire) but as a productive element dominated by man and incorporated into the ensemble of the material forces of production, an object of private property. As an abstract natural force electricity existed even before its reduction to a productive force, but it was not historically operative and was just subject to hypothetical discourse in natural history (earlier still it was historical "nothingness", since no one was interested in it or indeed knew anything about it).

How to explain this lack of understanding of the more nuanced position yet clearer against positivism taken by Gramsci? The answer is to be found on the two movements of the Gramscian dialectic between materialism and idealism. Whereas Cox appreciates and internalises Gramsci's critique of mechanistic materialism and

uses it successfully against positivism, he seems not to take into proper consideration Gramsci's symmetrical critique of the speculative idealism of Croce.

This leads to another problematic point of Cox's understanding of Gramsci. If the existence of a theory-independent external world is denied, how is one supposed to evaluate the merits of a given theory? Cox is not entirely clear in this respect, but – particularly in his assumption of the inherent conservative bias of problem-solving theory – he seems to imply that the value of a theory is to be assessed on its progressive and emancipatory intentions.³¹ Gramsci's disagreement with this position could not be harsher. In his notes on Machiavelli, he is very clear in prioritising 'effective reality' over normative ideals, dismissed by him as 'idle fancy, yearning, daydream' whenever they are not rooted in 'real possibilities' for their actualisation (1971: 172, Q13§14). Gramsci's brutally pragmatic definition of truth also goes in this direction: '[m]ass adhesion or non-adhesion to an ideology is the real critical test of the rationality and historicity of modes of thinking' (1971: 341, Q11§12): to put it simply, the value of a theory is to be assessed on its ability to explain reality, and by this, provide a guide for action.

In a nutshell, and in Coxian terms, the difference may be summarised in this way: whereas Cox is a critical *theorist*, Gramsci is a problem-solver and a critical *thinker*. If Gramsci is a problem-solver, is he subject to 'an ideological bias' towards 'tactical actions which, intended or unintended, sustain the existing order' (Cox 1981: 129-30)? In this irony one can identify the fallacy of Cox's assumption that problem-solving theory is inherently status quo oriented. Cox argues that critical theory is the only way to think 'outside the box', to use a very fashionable expression, because problem-solvers take the existing reality as the parameters for their own research and analysis, whereas critical theorists are the only ones with the appropriate tools for providing a transformative view of international relations. This resolves into what has been called a 'me-clever-you-stupid' attitude (Cammack 2007: 4). More importantly, this misses one fundamental link that was very clear to Gramsci. By borrowing a classical distinction of military theory and practice, Cox argues that 'critical theory can be a guide to strategic action to bring about an alternative order, whereas problem-solving theory is a guide to tactical actions' (Cox

³¹ Even the content of such emancipation has been subject to criticism. In particular, Spegele sarcastically argues: 'who would want to spend most of his/her life rotting away in one of Mussolini's prisons for marginal changes towards a "more participant society"?' (1997: 224).

1981: 130). Again, the focus seems to be misplaced, as any transformative strategy needs to confront itself with the 'effective reality' that necessarily requires some tactical adjustments. In other words, tactics is not the opposite of strategy, but rather its necessary complement, if the goal is 'to bring about an alternative order'.³²

Moving on to the *methodological level*, I argue that the use of the dialectic made by Cox is fundamentally incompatible with the two-dimensional concept developed by Gramsci. In particular, in the passage from Gramsci to Cox, the crucial dialectical link between theory and practice is severed, leading Cox and many neo-Gramscians after him to 'base theory on theory', exactly what it was meant to be avoided (Cox 1981: 128). The method of historical structures developed by Cox is claimed to be dialectic. But what does he mean by this word?

It is used here at two levels: the level of logic and the level of real history. At the level of logic, it means a dialogue seeking truth through the exploration of contradictions. [...] At the level of real history, dialectic is the potential for alternative forms of development arising from the confrontation of opposed social forces in any concrete historical situation (1981: 133-4).

The definition at the level of logic is supposed to take 'dialectic back to its Greek origins and spares us the assertions of theological Marxism concerning "Diamat" [dialectical materialism]' (1981, 152, ft.15). The concern to elaborate a definition of dialectic that redeems it from the Stalinist degenerations is both understandable and meritorious. However, Cox does not aim to overcome and transcend contradictions, but rather to explore them for the purpose of 'seeking truth'. At the level of real history, again, the dialectic is not *Aufhebung*, actual overcoming, but transformative potential. In this double removal of the practical implications of theory and the theoretical implications of practice, we can see the mirror respectively of Gramsci's critique of Bukharin and Croce.

Even more important than definitions, but clearly related to them, is the way in which the dialectic is used in Cox's work. Firstly, the *di* of di-alectics is denied by the very simple numerical observation that Cox's work proceeds through triads.

³² Gramsci on this: 'The class statesman grasps simultaneously the idea and its real process of realisation: draws up the project and at the same time the executive regulation. [...] Corollary: every great politician cannot be anything but a great administrator; every great strategist a great tactician, every theorist a great organiser' (1971: 1050, Q8§180).

Therefore, it would make more sense to speak of trialectics, as someone suggested (Jessop and Sum 2001: 94). However, if dialectic is to be conceived as the non-totalising tension towards unity between opposites, it is hard to understand what institutions are the opposite of, in the triad with material capabilities and ideas. Secondly, in his empirical work, the use of dialectics seems more to pay lip service to the conventions of historical materialism, rather than being at the core of Cox's critical theory. As noted elsewhere, Weberian ideal-types are at least as important for Cox's methodology (Burnham 1991: 77-9; Smith 1996: 202). Think for example of the twelve modes of social relations of production identified and discussed in Part I of *Production, Power and World Order* (1987: 29-98). There is nothing inherently wrong in the use of Weberian ideal-types.³³ Indeed, the argument he proposes that Weberian typologies are better suited to deal with the synchronic aspects of social reality, whether a Marxist methodology is better equipped for analysing conflicts and ruptures is a reasonable one (Cox 2002: 28). Therefore, 'conceptually arresting movement' (Cox 1987: 4) is not problematic in itself. The trouble arises earlier, and is simply hypostatized by Cox's ideal-types of modes of social relations of production, which are not the product of the dialectical interplay between the constitutive triad of material capabilities, institutions and ideas, but a mere combination of them. Cox's work ignores 'the complex co-constitutive relationship among ideas, power and institutions in favour of a largely juxtapositional analysis of different factors' (Jessop and Sum 2001: 95). In the simplest terms I could put it: it ignores the dialectic.

At the *analytical level*, lastly, in the other triad between world order, states and social relations of production, Cox's theory surprisingly underplays the role of the state. The metaphor of the state as a transmission belt within the mechanisms of transnational hegemony is particularly famous, as it has been attacked from various fronts,³⁴ and eventually rejected by Cox himself (2002: 33). However, this original underestimation of the role of the state is a signal of a wider flaw weakening many neo-Gramscian studies: the tendency to see transnational hegemony as monolithic, particularly in its current neoliberal form (Drainville 1994; Cammack 2007; Worth 2008). The subsidiary concept of the *nébuleuse*, intended as 'an increasingly

³³ As the reader will see in the next chapter, I am a strong advocate of methodological pluralism.

³⁴ For a review of the critiques of the role of the state in Cox's theory, see Schechter (2002: 10-2) and Cox (2002: 32-4).

centralised supranational management structure' (Schechter 2002: 16), reinforces more than weakens this impression.³⁵ It is not hard to see how problematic this analytical strategy is if seen in the light of the philosophy of praxis. Overshadowing the contradictions of neoliberal hegemony means significantly restricting the space for the transformative praxis at the core of Gramsci's thought. In one of the best studies of the Marxist theories of the state, Gramsci is indicated as one of the main proponents of the 'relative autonomy' of the state from the economic structure (Jessop 1982: 143-53). It is quite ironic that in the 'common sense' interpretation of his thought in IR and IPE we end up with the image of the state as a transmission belt.

In sum, the Coxian interpretation of Gramsci is epistemologically inconsistent with the philosophy of praxis as it superimposes the distinction between problem-solving and critical theory which by severing the link between theory and practice effectively forecloses the potential for transformative action it claims to promote. It is methodologically problematic, since the use of the dialectic is largely replaced by Weberian ideal-types. Finally, it is analytically imprecise in that it overestimates the coherence and strength of the emerging transnational capitalist class and/or world order under investigation.³⁶

1.3.3. *Gramsci in this study*

If these are the three points of incongruence between the 'Coxian Gramsci' and the Gramsci rooted in a more detailed analysis of his philosophy of praxis, what has the latter to offer us in exchange? This subsection aims to make explicit the *pars construens* that has so far been obscured by the critique of the Coxian understanding of Gramsci. Mirroring such critique, the argument develops at three different levels. In epistemological terms, I argue for the substitution of the problem-solving vs. critical theory dichotomy with a dialectical understanding of the relationship between theory and practice. In methodological terms, I argue that the very

³⁵ Both strands of neo-Gramscian studies share this neglect of the tensions and contradictions characterising neoliberal globalisation. The ones focusing on the concept of world order tend to overemphasise the pervasiveness of disciplinary neoliberalism as embodied in formal and informal international organisations (Gill 1991 and 1995; Murphy 1994; Rupert 2000). In much the same vein, studies focusing on the formation of a transnational capitalist class overlook the fault lines within this emerging global subject (Van der Pijl 1984 and 1998; Overbeek 1993; Sklair 2001).

³⁶ The section on hegemony discusses further the neo-Gramscian tendency to consider neoliberal hegemony as a monolith.

definition of the philosophy of praxis as historical dialectical materialism provides three excellent guidelines for research. In analytical terms, I argue for 'bringing the state back in' within Gramscian studies in IR and IPE, thus paying more attention to the relation between state and civil society as developed by Gramsci.

As I showed in the previous section, in criticising Benedetto Croce and his speculative idealism and in developing his two-dimensional conception of the dialectic, Gramsci puts a strong emphasis on the dialectical unity between theory and practice, considered as two sides of the same coin, and therefore presupposing and reinforcing each other within his philosophy of praxis. In this respect, the starting point for this intellectual development is to be found in the eleventh of Marx's *Theses on Feuerbach*: 'The philosophers have only *interpreted* the world in various ways; the point is to *change* it' (1969). For Gramsci, this is not to be seen as a rejection of philosophy of all sorts, but rather as a critique of the speculative tendencies of philosophers. It is the task of the philosophy of praxis to realise the correspondence of thought and action implied by this interpretation of the Marxian text. Within this dialectical process, practice takes priority over theory: 'the unity of theory and practice is not just a matter of mechanical fact, but a part of the historical process', even if only a few sentences later he argues that this need not lead to see 'theory as a "complement" or an "accessory" of practice, or as the handmaid of practice' (1971: 333-4, Q11§12).

Accepting this principle of the dialectical unity of theory and practice has two main *epistemological* implications. Firstly, the Coxian distinction between problem-solving and critical theory is rejected and replaced by the awareness that any transformative project has to be visionary and feasible at the very same time. This point is best expressed by Gramsci's note on Savonarola and Machiavelli: 'The opposition between Savonarola and Machiavelli is not an opposition between what is and what ought to be [...], but one between two concepts of what ought to be: the abstract and phantasmagorical concept of Savonarola, and the realistic concept of Machiavelli' (1971: 172-3, Q13§14). Secondly, taking 'effective reality' as the inescapable checkpoint where all theoretical ambitions are tested has major implications on theory evaluation. In the specific case of this work, the value of the conception of hegemony developed is to be assessed only on its explanatory merits, that is: on its ability to grasp the nature and the extent of the economic and political modifications produced by neoliberal reforms in Egypt. Thus, no normative

preference needs to be assumed, as the only evaluation criterion is the theory's ability to fit 'effective reality'. As for the ability of theory to provide a guide for action, studying the conditions of existence and the contradictions of the incumbent ruling bloc is already a stepping stone towards the development of an alternative project, both in its tactical and strategic implications.

In *methodological* terms, the three basic components in which the philosophy of praxis has been divided all have substantial implications for the way this research is carried out. To start with, focusing on the historical and historicist aspect of Gramsci means putting history through a double reading, therefore looking at it as both process and contextualisation. This means sifting Gramsci's thought in order to keep what is organic and let go what is conjunctural, to put it in Gramsci's own terms, by both understanding how his thought related and relates to the process of historical development, and how it was influenced by the specific historical, social and cultural circumstances in which it was elaborated. Regarding the dialectic, it is used in both its dimensions to understand respectively how past economic structures and policies are only partly superseded, and how this happens through a process where the economic and the political sphere are dialectically related and therefore constitute and reconstitute each other through the unfolding of neoliberal reforms. Lastly, the non-materialist definition of materialism provided by Gramsci and embedded in the philosophy of praxis provides another element of open-endedness to the research, as it adds a further level of interaction, this time between material and ideational factors.

In *analytical* terms, the importance of the state, and more generally of the national scale of which the state is the most relevant centre of political authority, is reaffirmed. This comes as a direct consequence of the constitutive power that the political enjoys over the economic. The state is taken here in its inclusive sense, being treated as 'integral State', to use a typical Gramscian expression.³⁷ Therefore, it is not only the state apparatus that is considered but also the complex and evolving relation between state and civil society, and the patterns of exclusion and inclusion characterising this relation, and particularly so in the Arab world (Ayubi 1995).

But if this theoretical framework is deployed in the national scale, how am I supposed to keep the international in? Indeed, some scholars argue that the extension of the Gramscian framework to the international scale is over-ambitious

³⁷ To date, the best study of Gramsci's theory of the state is still Buci-Glucksmann (1980).

and substantially unfeasible, on the ground that his concept of hegemony could not be easily transposed to the international scale because it is intimately connected with the state-civil society distinction, and in the international realm we do not have neither a political authority comparable to the state (Germain and Kenny 1998), nor a global civil society proper (Femia 2005). I argue that the concept of articulation provides a way out of this deadlock, by allowing us to relate the national and the international scale.³⁸ As we will see in the discussion in 2.3.1, the choice of scale is an empirical rather than an ontological question, and always a relative one, in that interscalar relations must be taken into account in the measure in which they are relevant for answering the research question at hand. Within this spatial framework, hegemony – as we will see in the next section – emerges on the national scale, but always in a dialectical relation with other forms of hegemony existing both in other national scales and in the international scale.

1.4. Hegemony

The term ‘hegemony’ has already been used several times, and now the time has come to explore it in its different facets and define it for the purpose of this study. This section tackles this task. The starting point is to be found in a detailed analysis of the *Prison Notebooks*, and in the discussion of the multiple sources from which Gramsci draws in elaborating his own conception of hegemony. Such eclecticism, coupled with the continuous development of his thought, leads Gramsci to use the term in three ways that, despite their inconsistencies (Anderson 1976), can be reworked to get to a cohesive definition of what hegemony represents for Gramsci. The Gramscian definition of hegemony is then compared with the use of the term in IR and IPE. In this respect, I concur with Joseph who maintains that ‘it is better to say that there are two different concepts of hegemony in IR, rather than two aspects of the same concept’ (2008: 109). Thus, I deal in the first instance with the concept of hegemony in mainstream IR, before moving on to the way hegemony is inflected in

³⁸ Following Jessop, ‘scale comprises the nested (and sometimes not so nested) hierarchy of bounded spaces of differing size: for example, local, regional, continental and global’ (2008: 105). In this study, I use the term ‘scale’, rather than the more common ‘level’, for two reasons. Firstly, scale much more than level gives a sense of a *necessary connection* between differing spaces; in other words, whereas levels could be separated one from the other, the intimate relation with other spatialities is constitutive of the concept of scale. Secondly, despite this necessary link, the use of scales does not rule out the possibilities for a differentiation among spatialities, or – in Gramscian terms – for a *non-correspondence* between them and the forms of *articulation* that follow.

critical IR and IPE. Finally, I outline the main elements that characterise the definition of hegemony adopted in this study, with particular emphasis on the ways in which the method of articulation can help us make sense of the unfolding of hegemony across the different instances of the structure-superstructure relation.

1.4.1. *Hegemony in the 'Prison Notebooks'*

Gramsci develops his own conception of hegemony from a wide range of sources. Again, the philosophy of praxis constitutes the common matrix within which these sources are organically combined. Four of them are particularly important to understand Gramsci's conception of hegemony: (i) the use of the term within the Russian social-democratic circles; (ii) the Crocean concept of ethico-political history; (iii) the twofold influence of Machiavelli; (iv) his studies in linguistics, and particularly the relation between dialect and national language. Dealing briefly with these sources and how they are re-elaborated in the *Prison Notebooks* 'helps contrast often unilateral and debatable interpretations of the concept, either by friendly commentators, who tend sometimes to overlook or deny economic and class factors, or by hostile ones, who neglect consensual aspects' (Boothman 2008: 33).

Hegemony is first used within a Marxist framework by Plekhanov in 1883-4 in the context of Tsarist Russia, as a successful slogan for the Russian working class calling for a unification of political struggle against the regime and economic struggle against employers (Anderson 1976: 15-7). The ideational connotation of the term emerges through a slight shift of meaning only a couple of decades later. Hegemony starts to refer to the leading role that the working class has to take in the alliance with other exploited groups, and peasants in particular. It is with this connotation that the term reaches Gramsci in the formulation by Lenin, considered 'the greatest modern theoretician of the philosophy of praxis', who 'reappraised the front of cultural struggle and constructed the theory of hegemony as a complement to the theory of the State-as-force' (Gramsci 1995: 357, Q10I§12). It is exactly this ideational element distinguishing leadership from domination that Gramsci draws from the Russian use of the concept.³⁹

³⁹ Also Trotsky, in his *History of the Russian Revolution*, uses hegemony with this meaning, and more specifically opposing the hegemony of the proletariat over the peasantry to the dictatorship of the proletariat over the bourgeoisie (1980: 296-7).

The second source of inspiration for Gramsci is arguably the most neglected one. However, the Crocean concept of 'ethico-political history' is vital to understand the conceptual extension produced by Gramsci (Boothman 2008: 40-1). Through this compound concept, Croce pointed out the main flaw of historical materialism as he saw it, that is: considering 'economic life as the substantive reality and moral life as an appearance' (Croce 1946: 67). Thus, 'ethico-political history' focuses on what historical materialism treats as mere epiphenomena. As usually happens with Gramsci's engagement with the Italian idealist, this concept is firstly thoroughly criticised, as 'an arbitrary and mechanical hypostasis of the moment of hegemony, of political leadership, of consent in the life and development of the State and civil society'. A couple of paragraphs later, however, Gramsci asks whether the philosophy of praxis should give any room to the concept of 'ethico-political history', reaching the conclusion that it is indeed necessary to translate this concept into the language of the philosophy of praxis,⁴⁰ with the aim of 'asserting the moment of hegemony as essential to the concept of the State and in attaching "full weight" to the cultural factor, to cultural activity, to the necessity for a cultural front alongside the merely economic and political ones' (Gramsci 1995: 345, Q10I§7). Through this conceptual movement away from the Russian meaning, hegemony can now also account for the reorganisation of society on the part of the state, rather than refer only to a social alliance that aims at overthrowing a particular form of state.

The influence of Machiavelli on Gramsci's conception of hegemony, on the other hand, is very well documented (Femia 1981 and 2005; Cox 1983; Fontana 1993 and 2008). In particular, two elements of *The Prince* are particularly influential. Firstly, the much-used metaphor of the centaur - half-animal and half-man - to characterise the combination of force and consent typical of hegemony. Secondly, the consideration that the success of the prince lies in his ability to negotiate with his people, or at least with relevant groups within it, and to share common goals. Only a successful outcome of this negotiation can transform a *moltitudine sciolta* (untied multitude) into a *populo* (people), a collective subject. Therefore, the consensual aspect of hegemony does not rely solely on ideational persuasion, but has within it a

⁴⁰ If I understand correctly, Boothman sees the translation of a concept as more than its simple adaptation. Rather, it is considered as a radical alteration of its meaning, which conserves only a somewhat arbitrarily selected part of it, and reworks the rest in order to make it compatible with one's own philosophical conception (2002).

material component, which can take the form of cooptation of new groups within the hegemonic bloc, but also of spoil distribution among supporters. This opening of the consent box into its ideational and material components, is by no means marginal and has great implications for this work.

A fourth and more direct source of inspiration were the linguistics studies Gramsci undertook at the University of Turin, which had a fundamental impact in shaping his conceptualisation of the relation between hegemonic and subaltern groups, and more specifically regarding the discursive production and reproduction of hegemony and subalternity (Ives 2004). Brought up mostly speaking the local dialect of Sardinian language, yet 'fundamentally Italian' in his culture and politically committed to internationalism, Gramsci was extremely interested in the dialect-national language nexus (Lo Piparo 1979). More specifically, even though entirely aware of the particularistic and often folkloristic tendencies of minority cultures, he soon recognised the power dimension implicit to language, and how dominant languages, though not necessarily co-extensive with hegemonic cultures, have a fundamental role in discursively shaping asymmetric relations between rulers and ruled, as each language constitutes 'an integral conception of the world' (1975: 644, Q5§123), whose affirmation is also a way of entrenching power relations putting the subaltern in what is deemed to be its place.

These four aspects find a common matrix in Gramsci's philosophy of praxis intended as historical dialectical materialism. Indeed, the Russian conception of hegemony is historicised and dialectically transformed through reference to the Crocean 'ethico-political history', allowing the state into the equation and overcoming the fixed contraposition between social classes typical of the Russian use of hegemony. In much the same way, the Crocean interpretation of history interacts with a socio-economic history typical of historical materialist approaches. Then, the Machiavellian legacy is deprived of its conjunctural aspects (preference for the prince over the republican form) and revived in its organic elements (dual view of hegemony as both force and consent). Lastly, the dialect-national language nexus leads to a mediated understanding of the discursive construction of the relation between hegemonic and subaltern subjects, showing once more the relevance of the dialectic to Gramsci's thinking.

Gramsci's eclecticism is a potential explanation for the critique moved by Perry Anderson (1976), who in a very influential piece argues that in the *Prison*

Notebooks Gramsci provides at least three different answers to the question: where does hegemony operate? Anderson is certainly right when he argues that this seeming incongruence derives from another inconsistency in Gramsci's work. Namely, the three conflicting descriptions of the relation between state and civil society:

1. The state in opposition with civil society;
2. The state as 'the massive structure' cancelling the autonomy of civil society;
3. The state as an 'outer surface' of civil society.

There are two underlying elements that unify these three versions. First, hegemony is confined to the superstructures. Second, two fundamental superstructures are identified, namely political society and civil society. But the relation between them varies in each of the interpretations. In the first case, civil society is pitted against the state, even though it is never completely detached from it. In the second case, the distinction between political and civil society is denied as a product of liberal ideology, and civil society ends up being subsumed within the state itself. In the last case, 'the state = political society + civil society' (Gramsci 1971: 263, Q6§88), with the distinction between political and civil realm being maintained, but the state encompassing both of them.

Shifting interpretations of state-civil society relations lead to shifting conceptions of hegemony, with the concept sometimes equated with consent and opposed to coercion, and sometimes including both:

1. Hegemony pertains to civil society, and coercion to the state;
2. Hegemony is operated by the state over both political and civil society;
3. Hegemony is a synthesis of coercion and consent and operates both across political and civil society.

Each of the three interpretations has advantages and drawbacks. The first, by reproducing the neat distinction between state and civil society, confines hegemony to the private realm. Moreover, being clearly opposed to coercion, hegemony is in the last instance equated with consent. Through this double distinction, the primacy of the state over civil society is assured by mere coercion. Such an understanding is extremely problematic as it underestimates the ideological power of the state. Moreover, a look at our complex societies is enough to falsify this view, as everyone can see that states do not have to resort to violence on their citizens to collect taxes

or even to exert violence against other states. Putting things within context, however, allows us to better understand Gramsci's case. This separation of state and civil society, and the limitation of hegemony to the latter, is part of a longer elaboration on the main difference between East and West, and even more specifically between Tsarist Russia and Western European parliamentary systems. In the latter, Gramsci finds that there is 'a proper relation' between the state and civil society, whereas in Tsarist Russia 'the state is everything'. One can already see here that the distinction between state and civil society has mostly an analytical value, rather than an ontological one. This analytical distinction has crucial implications in terms of political strategy, as it leads to the distinction between 'war of manoeuvre' and 'war of position', with the former more suited for situations where civil society is 'gelatinous' and relatively underdeveloped, and the latter more effective where civil society is 'sturdy' (1971: 235-8. Q7§16).

The second definition goes in the opposite direction. Hegemony is still a synonym for consent, but – by subsuming civil society within the state – the latter becomes coextensive with the whole social formation, and cancels it. This conception is exemplified by an early note titled *The Concept of State*, where Gramsci argues that 'by "State" should be understood not only the apparatus of government, but also the "private" apparatus of "hegemony" or civil society' (1971: 261, Q6§137). Following from this, any potential autonomy of civil society is denied in the last instance. The problem with this conception is that by cancelling the state-civil society distinction, it forecloses the analysis of different forms of state, which are indeed shaped by the way the political and juridical apparatuses relate to the wider social formation. In other words, 'in strict logic it becomes impossible and unnecessary to distinguish between bourgeois democracy and fascism', and such choice undermines 'any scientific attempt to define the specificity of bourgeois democracy in the West' (Anderson 1976: 34).⁴¹

Finally, the third definition is certainly the most complex one, with hegemony operating both across political and civil society, and – more interestingly even – with both the state and civil society having the possibility to exercise, resist or transform it. The primacy of the state is still related to the monopoly of coercion, but

⁴¹ This is the all-encompassing definition of the state retrieved by Althusser, with his concept of 'Ideological State Apparatuses', controlled by the state, as much as coercion is, and diffused through both political and civil society, largely conceived as passive terrains of state activities.

- crucially - it is mostly maintained and exercised through consent. And hegemony is therefore defined as 'the combination of force and consent, which balance each other reciprocally, without force predominating excessively over consent' (Gramsci 1971: 80, ft.49, Q13§37). However, even this last definition is problematic. In particular, broadening hegemony both in its meaning (coercion + consent) and in its terrain of operation (political + civil society) in principle means giving coercive powers to civil society as well. However, in modern capitalist states, the monopoly of coercion is in the hands of state alone. To summarise with Anderson, '[i]deology is shared between civil society and the State; violence pertains to the State alone. In other words, the State enters twice over into any equation between the two' (1976: 32).

Putting graphically the position of hegemony on the two dimensions of its conceptual extension and terrain of operation, we get to the following three matrixes:

1. Hegemony pertains to civil society, and coercion to the state.

Figure 1.1 - Gramsci's hegemony (Take 1)

<i>Hegemony</i>		Operation	
		Political society	Civil society
Meaning	Coercion	✓	
	Consent	?	✓

2. Hegemony is operated by the state over both political and civil society.

Figure 1.2 - Gramsci's hegemony (Take 2)

<i>Hegemony</i>		Operation	
		Political society	Civil society
Meaning	Coercion	✓	?
	Consent	✓	

3. Hegemony is a synthesis of coercion and consent and operates across both political and civil society.

Figure 1.3 - Gramsci's hegemony (Take 3)

<i>Hegemony</i>		Operation	
		Political society	Civil society
Meaning	Coercion	✓	X
	Consent	✓	✓

The question marks and crosses point to the logical and/or empirical inconsistencies in each definition of hegemony given by Gramsci. How do we get out of this deadlock? I argue that this is possible only by accepting a *differentiated understanding of hegemony*, which allows to consider it as a combination of coercion and consent when it is exercised by the state, while the coercive element is lost when hegemony is exercised by civil society. A differentiated understanding also accounts for the additional difficulties in building hegemony without having political power, and hence without having access to the coercive apparatus. Moreover, a close look at the *Prison Notebooks* seems to support this choice. Gramsci gives coercive power to civil society only in one specific instance, when commenting on the borderline case of Fascist Italy: ‘In the current struggles, [...] a weakened State structure is like a flagging army; the commandos – i.e. the private armed organisations – enter the field, and they have two tasks: to make use of illegal means, while the State appears to remain within legality, and thus to reorganise the State itself’ (1971: 232, Q1§133). Apart from this very isolated case, hegemony is consistently interpreted as consent when attributed to civil society (1975: 751-2, Q6§81; 1056, Q8§191). The mature conception of hegemony, with the state entering into the equation without cancelling civil society, finds expression in the later notebook on Machiavelli, and through the study of the Florentine thinker and diplomat the concept of hegemony becomes applicable to the state, subsuming within itself also the coercive aspect of state activity, as exemplified in the following matrix.

Figure 1.4 - Gramsci’s differentiated understanding of hegemony

<i>Hegemony</i>		Operation	
		Political society	Civil society
Meaning	Coercion	✓	
	Consent	✓	✓

1.4.2. *Hegemony in mainstream IR: Gramsci unheard?*

Students and scholars of IR and IPE need not be ‘Gramscologists’ to be familiar with hegemony. Indeed, the term is very common within the discipline. So much that all the main schools of thought have developed a version of the concept. As a consequence, hegemony is found analytically useful by self-proclaimed realists and neo-realists (Krasner 1976; Gilpin 1981 and 1987) and by liberals (Keohane 1984; Ikenberry and Kupchan 1990). The heuristic value of the concept of hegemony is also witnessed by the recent effort by Ian Clark to develop an ‘English school theory

of hegemony' (2009 and 2011). If we add to these the discursive conception of hegemony developed by Laclau and Mouffe (2001), the take on the term typical of human geographers (Agnew and Corbridge 1995; Agnew 2004) and of course neo-Gramscian applications of various kinds (Cox 1981, 1983 and 1987; Gill 1991; Overbeek 1993; Rupert 1995; Morton 2007a), one can see that hegemony has a foothold in all the main approaches to IR and IPE.

However, when a term becomes very popular, it is always worthwhile asking whether those that make so much use of it all mean the same thing. In the case of hegemony, it does not take long to realise that this is not the case. This is indeed rather surprising, considering that most studies of hegemony within mainstream IR/IPE tend to spring from the same source: the seminal study of Charles Kindleberger on the stabilisation of the world economy after systemic crises (1973). Although he never uses the term 'hegemonic stability theory', coined by Robert Keohane in his influential interpretation, Kindleberger provides the basic argument on which such theory is based. Succinctly stated, the most powerful state within a given international system has the incentive to provide financial stability to the rest of the system, because such stability will benefit the prominent state as well. Financial stability is therefore perceived as a public good (e.g.: non-rival and non-excludable), and its provision is in the interest of the dominant economic power, because it will put it in the conditions to make the most out of its economic preponderance. And as outlined by Kindleberger in a famous quote: 'for the world economy to be stabilised, there has to be a stabiliser, one stabiliser' (1973: 305).

Despite the common source of inspiration, it is possible to identify at least four different meanings for the term 'hegemony' within mainstream IR and IPE. Depending on the author and the context, hegemony is variously defined as: (i) preponderance of material resources; (ii) preponderance of material resources and willingness to exert them; (iii) leadership; (iv) material incentives and socialisation. The first definition originates in realist and neo-realist circles, so much that for Gilpin a hegemon is a state that 'controls or dominates lesser states' (1981: 28). Considering the immediate translation of material capabilities into power underlying neorealist theory, preponderance of material resources is taken to be a necessary and sufficient condition for the establishment of an hegemonic order. The second definition adds a voluntary element to hegemony, in that it combines the preponderance of material resources with the willingness by the dominant state to

use it in order to establish an hegemonic system (Keohane 1984: 35). Despite this new element, the *conditio sine qua non* allowing a state to pursue an hegemonic project is still material supremacy. The ideational element gets into the picture with the third definition, where hegemony is equated with leadership (Pahre 2005).⁴² In this case, hegemony is defined as 'a relationship of legitimate domination exercised by one country over the others' (Mjøset 1990: 21). The material element is still the fundamental prerequisite for the exercise of hegemony, but in this case it is coupled with the ability of the dominant state to be considered legitimate by those included in the hegemonic system. The fourth definition, finally, brings socialisation into the definition of hegemony, by arguing that hegemony should be understood as a combination of material and non-material incentives (Ikenberry and Kupchan 1990). Again, material incentives can be offered only by states that are in a position of relative superiority. However, this perspective significantly takes into account non-material elements, such as ideology and norms.

To sum up, within mainstream IR and IPE we have some rather different conceptions of hegemony. If one is to find the common core, as it happens in the *Routledge Encyclopedia of International Political Economy*, hegemony ends up being simply 'the occupation of a dominant position within any system' (2001: 669). However, I deem worthwhile engaging with the mainstream conceptions of hegemony from a Gramscian perspective, at least in order to measure the distance between the dominant approaches to hegemony within the discipline and the one adopted here. At best, each of these definitions highlights one of the specific aspects of the broader Gramscian definition, be it raw power, willingness to exert it (largely implicit in the Gramscian conceptualisation, as hegemony is a social construction, and therefore it requires an underlying will on the part of those who establish it), ability to lead rather than simply dominate, and socialisation as one of the mechanism through which hegemony is produced and reproduced.

Despite these ostensible similarities, there is one ontological difference between what hegemony means for Gramsci and what it means for mainstream IR/IPE, and such difference makes any fruitful comparison hopeless. Whereas for Gramsci hegemony is a phenomenon requiring a state and a society to which the

⁴² Starting from a realist perspective, Lake argues strongly against the identification of hegemony with leadership. In his own understanding, 'hegemony is necessarily coercive and based on the exercise of power' (1993: 469).

state relates, within mainstream approaches states are considered as black boxes, and hegemony is a possible condition mostly between them, and not inside them, as is the case for Gramsci. This neglect of the social dimension of hegemony, which goes well beyond the ability to persuade other states, and finds its roots in the system of social relations has another major consequence on the way hegemony is conceived within mainstream IR/IPE: hegemony can only be exerted by states in a situation of material preponderance. That is, the possibilities of a counter-hegemonic project are entirely dependent on the acquisition of material predominance. Once again, ideas and ideologies are welcome only if they accept the back seat. Summing up, from a Gramscian perspective, mainstream conceptions of hegemony replicate the twin flaw typical of the political and philosophical theories from which they arise: state-centrism and mechanical materialism.

1.4.3. *Hegemony in critical IR and IPE: Gramsci misheard?*

It appears now quite clearly that Gramsci has not influenced much the way hegemony has been employed in the discipline. Difference in sources – with mainstream IR and IPE scholars referring to Kindleberger, and Marxists, critical theorists and post-structuralists referring to Gramsci – probably accounts for the presence of two different concepts with the same name mentioned by Joseph (2008). When we turn our eyes to the fringes of the discipline, on the other hand, the name of Gramsci recurs with a staggering frequency. Among the plethora of interpretations inspired by his work, this subsection will focus on the use of hegemony by Cox and by the two main strands of the neo-Gramscian school.

In the first piece of his Gramscian triptych, Cox defines hegemony as ‘a fit between power, ideas and institutions’, with power being seen in the following page as ‘*emerging* from social processes rather than taken as given in the form of accumulated material capabilities’ (1981: 140-1, original emphasis). Thus, in this first phase of development of his critical theory, hegemony is related to social relations through the mediation of power. Interestingly, in this definition of hegemony social relations are excluded both from ideas and institutions. Moreover, the coercion-consent spectrum which is key to the Gramscian conception of hegemony is left implicit. By the time *Power, Production and World Order* goes to print, Cox’s definition of hegemony has reached its maturity. Now hegemony is ‘dominance of a particular kind where the dominant state creates an order based ideologically on a

broad measure of consent, functioning according to general principles that in fact ensure the continuing supremacy of the leading state or states and leading social classes but at the same time offer some measure or prospect of satisfaction to the less powerful' (Cox 1987: 7). In this formulation, the consensual aspect of hegemony is made explicit, and is put at the service of the predominant actor or actors, be they states or social classes. When compared to the first definition, however, this second one does not produce any significant advancement when it comes to the conceptualisation of the social substratum of hegemony. Indeed, the reference to 'leading social classes' as an alternative to dominant states seems more paying lip-service to the historical materialist tradition rather than really informing Cox's conception of hegemony.

As always, the proof of the pudding is in the eating. It is here that the Cox's definition of hegemony fails its litmus test, leading to conclusions which are not qualitatively different from those reached by scholars using hegemony in mainstream IR (Worth 2011: 381): a state has to be powerful enough to establish its hegemony on the international scale, and when this is not possible anymore we have a hegemonic decline and eventually a crisis, which can take the form of economic or military conflict, and is often followed by a non-hegemonic period, until another state is strong enough to internationalise its hegemonic project and so on. Despite its best intentions, Cox's empirical application of hegemony suffers from the same state-centrism which it was meant to overcome in order to focus on the social constitution of hegemony.⁴³

In my view, the main flaw of Cox's approach lies in the mis-conceptualisation of the Gramscian conception of the state-civil society relation, which inevitably – as Anderson showed for Gramsci himself – affects the way hegemony is defined. More specifically, Cox is caught in an ambiguity characterising most Marxist studies of the international, as it was typical of Marx himself, who in his fleeting references to the international never fully clarified how society was to be conceived beyond the national scale. In his exchange with Alex Callinicos, Justin Rosenberg points this out very clearly: 'Nothing requires that the conception of "society" presupposed by Marx's concept of the capitalist mode of production should be a singular one.

⁴³ This is particularly visible in the chapter of *Power, Production and World Order* dealing with the 'world economic crisis' (1987: 273-291), where the understanding of hegemony in state-centric terms leads Cox to reach the same conclusion of several mainstream accounts: that already by the mid-1980s US hegemony and the related Pax Americana were declining.

Equally, however, nothing in Marx's thought prevents it from being assumed to be such. And most Marxist approaches in international theory have in fact left this assumption itself untouched' (2008: 87). In his extension of hegemony to the international scale, Cox implicitly takes society as singular, being trapped in a 'many states-one society' logic that oversimplifies - sometimes minimising, some others magnifying - the impact of social relations of production.

These opposing tendencies, towards state-centrism and towards class-centrism, are visible respectively in the Coxian and in the Amsterdam school. Within the first strand, the working assumption is the existence of a consolidated domestic hegemony, whose construction and contestation is rarely touched upon. Whereas this might be understandable in that after all we are dealing with international studies, this approach has an unwelcome consequence. Looking at the internationalisation of domestic hegemonies translates into looking at how leadership, usually springing from core states, is exercised either through the 'internationalisation of the state' or through formal or informal international institutions.⁴⁴ As a consequence, even at the international scale very little attention is paid to patterns of bandwagoning, emulation and contestation in relation to the dominant hegemony. Thus, this approach suffers from two flaws. On the one hand, as noted elsewhere (Hobson 2007), it assumes a pattern of hegemonic diffusion from the core towards the periphery, thus resolving itself in a heavily Western-centric account of how hegemony works in the international system. On the other hand, hegemony is supposed to work in a top-down fashion even in social terms, conceived as it is as hegemony of statesmen representing the dominant classes, giving subaltern groups very little room to make their voices heard, if not in the defensive form of resistance (Gill 2003).

Whereas the Coxian school proper veers towards state-centrism in its conclusions, Van der Pijl and his followers rely on a more traditional class-based account. In their work, hegemony is more of an ancillary concept, as it constitutes one of the ways in which the emerging transnational capitalist class - the key explanatory tool - establishes and consolidates its position in the globalising

⁴⁴ The thesis of the 'internationalisation of the state' has been best developed by Stephen Gill (2003). Gill himself was a pioneer in the focus on the role of informal institutions, such as the Trilateral Commission (1990). Craig Murphy, on the other hand, provided the most comprehensive study of how historical blocs are constructed - and thus hegemony is affirmed - through the work of international organisations (1994).

political economy. In this case, the 'many states-one society' logic pursues the opposite solution, with the more internationalised fractions of capital gradually untying themselves from state structures and reconstituting a new hegemony beyond the state, relying on an already global society. The final result is not different from that achieved from the Coxian School, as the transnational capitalist class is treated as unambiguously transatlantic (Van der Pijl 1984 and 1998; Overbeek 1990 and 1993), and thus Western-centric, and its position in the elaboration, construction and diffusion of hegemonic projects is considered as relatively unchallenged from below.

If these traditions are caught in the opposing poles of the 'many states-one society' dilemma, and yet they share the same problems of Western-centrism and elitism, how is it possible to move beyond this deadlock?

1.4.4. *Hegemony in this study*

As our main unit of analysis, the national scale, tends to be dominated by the state in the Arab world at large (Ayubi 1995: 31-2), in this study hegemony is mostly considered in its exercise on the part of the state, and of the social groups with access to political power. Following Figure 1.4, this means that hegemony is to be intended as a combination of coercion and consent, which 'balance each other reciprocally, without force predominating excessively over consent' (Gramsci 1971: 80, ft.49, Q13§37). The strong subjective element carried by the adverb 'excessively' is to be seen as an invitation to explore the different forms that hegemony takes, being from time to time more or less inclusive, more or less ideologically compelling, and in the last analysis more or less successful. Elaborating on Femia's typology (1981: 46-50), it is also possible to observe the evolution of hegemony in time as oscillating between the extremes of *integral hegemony* and *failed hegemony*.⁴⁵ We are closer to the former when the overall society exhibits a substantial degree of 'moral and intellectual unity', and thus the ruling bloc obtains an almost unqualified commitment on the part of subaltern groups. Failed hegemony, on the other hand, sees the dissolution of this political and ideological bond cutting across social forces,

⁴⁵ Femia (1981: 46-50) proposes three types of hegemony: (i) integral; (ii) decadent; (iii) minimal. I maintain that the moment in which an hegemony dissolves, and thus fails, still needs to be considered within this continuum.

leading either to raw coercion taking centre-stage to ensure the survival of the political order or to political disintegration.

Hegemony as a balanced combination of coercion and consent does not take place in a vacuum. This is where the method of articulation, employed by Gramsci and explicitly developed by Laclau and Mouffe,⁴⁶ becomes of vital importance in understanding how the specific configuration taken by hegemony is shaped by the articulation of structure and superstructure, encapsulated in the hitherto neglected concept of *historical bloc*,⁴⁷ intended as form of asymmetrical yet mutual constitution. As with the other compound concept discussed earlier ('philosophy of praxis'), there is a dialectical understanding of reality underlying the very definition of historical bloc, considered as the 'interrelated and reciprocal development of structure and superstructure' (Morton 2007a: 96). On this ground, the historical bloc is to be understood as both holistic and relativistic, as totalising and self-limiting. On the one hand, the term 'bloc' refers to what Croce called 'unity of the distincts', thus as the inescapable relation between the realm of production and the realm of state-civil society relations, with its political and ideological implications. On the other hand, the term 'historical' refers to the conjunctural conditions which define the specificities of any given relation between structure and superstructure, and thus the form taken by the historical bloc. From this starting point, hegemony becomes 'the component that transforms Marx's somewhat static structure-superstructure metaphor into Gramsci's more dynamic one of historical bloc' (Boothman 2008: 33).

For the sake of analytical clarity, in this study the relation between structure and superstructure at the heart of Gramsci's thought is disaggregated in its three fundamental instances, in order to better grasp the different forms of articulation on which hegemony is constituted. First, the articulation between the economic and the political, which leads to a conception of hegemony as inescapably related to social relations of production, but at the same shaped by the struggle of social forces in the political arena. Second, the articulation of the international and the national scale,

⁴⁶ Laclau and Mouffe define articulation as 'any practice establishing a relation among elements such that their identity is modified as a result of the articulatory practice' (2001: 105).

⁴⁷ Following Morton (2007a: 218, ft.8), the adjective 'historical' is preferred to the alternative 'historic' used by Cox and other neo-Gramscian scholars. This is because whereas 'historic' tends to give 'a static or "snapshot-like" description', the term 'historical' points to the dynamic development through which an historical bloc develops.

with hegemony emerging as an essentially national phenomenon, but whose conditions of existence – and interscalar extension, when possible – are determined in the first instance by the international scale, and by the patterns of uneven and combined development characterising capitalist relations of production. Third, the interaction between material factors and ideas, with the discursive construction of hegemony intertwined with material exchanges equally important in rendering hegemony acceptable to subaltern groups.

With respect to the first form of articulation, the concept of historical bloc – by relating structure and superstructure in a reciprocal way – allows us to avoid the quagmire of economic determinism. At the same time, it also prevents the slide into multi-causality, ‘for though hegemony is ethical-political, it must also be economic, must necessarily be based on the decisive function exercised by the leading group in the decisive nucleus of economic activity’ (Gramsci 1971: 161, Q13§18). In this respect, Gramsci’s conception is better exemplified in Stuart Hall’s phrase of ‘economic determinism in the first instance’ (1996a: 45). From this perspective, the economic structure is seen as a first moulding influence defining what Braudel called the ‘limits of the possible’, thus setting the boundaries of a playing field within which political agency develops its strategies and projects. Thus, as pointed out by Jessop (1990: 208-9), an hegemonic project cannot be successful if it does not relate in some way to an existing or prospective strategy of capital accumulation, as we will see in 2.2.3. At the same time, the relative autonomy enjoyed by the political means that in its interaction with the economic it does have the chance to reshape those very boundaries within which agency works. This is displayed most clearly in Gramsci’s remarks about the political nature of *laissez-faire* policies and yet their ability at the same time to reshape the economic structure and affect the distribution of wealth within a state (1971: 159-62, Q13§18).

The interplay between determination in the first instance by the economic structure and relative autonomy of the political, and particularly of the state, is probably best illustrated with reference to an empirical example. Up until the late 1960s, Egypt pursued a state capitalist model, with an accumulation regime revolving around the central position of the state in production, management and redistribution. Sadat’s *infitah*, launched in 1973, while responding to the shifting imperatives of global capital accumulation, also provided the state with the opportunity of creating its own capitalist class, the so-called *infitah* bourgeoisie that

plays such a central role in the argument developed in this thesis. In turn, this exercise of relative autonomy on the part of the state fed back on the economic structure, partially restructuring the accumulation regime and thus social relations of production.⁴⁸

On the second dimension, the relation between national and international scale is also conceived in an interactive way. Though related to the economic structure, hegemony is shaped, asserted and contested in the political arena, still organised by territorial states and their boundaries. Thus, contrary to proponents of transnational hegemony such as Robinson (2005), *hegemony is better understood as originating at the national scale*, arising from the evolution of state-civil society relations. But if we accept the national nature of hegemony, how is it possible to conceive of its outward expansion? First of all, one should not forget that the national scale, and the hegemony emerging within it, is not placed in a void, but rather within a global political economy where capital accumulation is organised around – and further reinforces – processes of uneven and combined development. Gramsci is adamant in maintaining that international factors have a causal role in shaping constraints and opportunities that will guide actions at the national scale, and all the more so in peripheral states.⁴⁹

Also in this case one can identify a form of determination in the first instance, with the international scale defining the boundaries of action within which the national scale is allowed to devise and put into practice its strategies and projects. Within this context, the national scale retains its relative autonomy, and might as well exercise it in order to influence those very international conditions. Under this framework, it is possible to conceive how national hegemonies may extend beyond their scale of origin, and how once internationalised they penetrate into other states and other national scales. Following from this, the global political economy can be understood as a system of interlocking hegemonies between and across different spatial scales. These hegemonies might be nested into each other, but sometimes might also be pitted against each other.

To illustrate the workings of interscalar articulation with respect to this issue of affinity or opposition to the prevailing hegemony at the international scale, it is

⁴⁸ This empirical example is discussed much more extensively in Chapter 3.

⁴⁹ In a note on the causes and consequence of the Great Depression, Gramsci expresses this view most clearly: ‘The history of the subaltern states is explained by the history of the hegemonic states’ (1975: 1759, Q15§5).

worthwhile to sketch a comparison between two moments of Egyptian republican history. On the one hand, Nasser's attempt to develop hegemony at the national scale and extend it at the regional scale was obviously influenced by the international climate of those decades, in economic, political and ideological terms. Yet, the Nasserist project developed in opposition to both the post-war *Pax Americana* based on Keynesianism and the coercion-intensive domination of the Soviet bloc by the USSR. On the other hand, the move away from Nasserist principles and the attempt to develop hegemony on new foundations saw both Sadat and Mubarak trying to articulate the national scale along the lines advocated by the emerging form of neoliberal capitalism in the core economies.

On the third dimension, whereas hegemony is usually conceived in terms of 'intersubjective meanings' and 'collective images of the world order' (Cox 1981: 136), the articulation of material factors and ideas reminds us that the construction of hegemony also takes place at a more down-to-earth level. Following Anne Sassoon, *hegemony is to be understood as an exchange*, intended in its broadest meaning (2001: 6). Most of the neo-Gramscian literature has focused on the ideational side of exchange, with subaltern groups absorbing or resisting the conception of the world developed and promoted by the ruling classes. However, it is equally important to keep in mind that exchanges are also material, regarding the delivery (or promise) of real (or prospective) improvements in the life of those involved, be they different fractions within the ruling bloc or subaltern groups.

Beyond the two dimensions of exchange, the general relation between material factors and ideas is once more best encapsulated in the concept of determination in the first instance, in this case by the material, and in the corresponding relative autonomy of ideas. In other words, and not particularly surprisingly from a Marxist perspective, material conditions do constrain the range of ideas and conceptions of the world that can be successful in a given context. At the same time, and in this case moving away from the Marxist orthodoxy, ideas and ideologies develop a significant autonomy, mostly displayed in two forms. On the one hand, it is not uncommon to see ideas and ideologies produced arising from specific material conditions outliving the change in those very conditions which initially determined their existence. On the other hand, ideologies are also a device through which we decode reality and frame it in order to make sense of it. Thus, successful ideologies

end up influencing the way we perceive material factors, and by this they influence their evolution.⁵⁰

Articulation takes place not only within each of these dimensions, but also across them. The increased interconnection of the global economy, with the resulting 'time-space compression' (Harvey 1989: 240-2), produced a change in the scalar dimension with significant consequences for material and ideational factors that is worth delineating by way of illustration. The existence of more integrated national economies means ruling blocs of different states intensifying their relations with each other. Even more than before this means that the very exchanges outlined by Sassoon may take place not only within the national scale, but also across scales. In material terms, a typical case of interscalar exchange is the decision on the part of ruling blocs in the periphery to open up their economy, with consequent shift in the capital accumulation regime, to allow foreign investment and foreign aid, with the prospect of benefitting from the deriving economic growth at best, or from the division of spoils at worse. In ideational terms, interscalar exchange is usually translated in the reliance on a 'conception of the world', as Gramsci would put it, which has already become 'common sense' among the major players on the international scale.

Looking back at the main sources which inspired Gramsci's elaborations on hegemony, and taking seriously Anderson's charge of theoretical inconsistency allows to move towards a differentiated understanding of the concept. Hegemony is on the one hand equated with consent only when it emerges from within society, more often than not in opposition - a counter-hegemonic project - to an existing economic and political order. On the other hand, hegemony is best seen as a combination of coercion and consent when it is exercised by the state and by those which have access to state power. This latter meaning is the one on which this work focuses. Other than being differentiated, hegemony here is also understood as articulated on three dimensions, which correspond to the three fundamental

⁵⁰ I find Colin Hay's comparative application of this argument to the 1970s and current crises particularly instructive. In the Leonard Shapiro memorial lecture (2011), Hay shows how the discourse about the economy was able to depict the 1970s crisis as structural, thus requiring a substantial restructuring of the global political economy. On the contrary, over the past few years discursive construction was key in portraying the crisis as related to single components and not to the system as a whole, thus requiring adjustment measures at the national scale (i.e.: austerity), without putting into question the overall structure of the global political economy.

instances of the structure-superstructure relation, involving respectively the economic and the political, the international and the national, the material and the ideational. The exploration of these dimensions is inescapable if one is to understand whether in the specific empirical case hegemonies in the plural collude or collide, and with what results.

1.5. Conclusion

The best prospects for a move beyond the neo-Gramscian school are already implicit in Gramsci's work, and starting from this assumption this chapter has developed an alternative interpretation to the one dominant within IR and IPE. The foundations for this different take on Gramsci have been identified in the crucial yet neglected philosophy of praxis, which emerges from the *Prison Notebooks* as a peculiar version of historical dialectical materialism. Understood on these terms, Gramsci's thought can be reinterpreted in counterpoint to the 'Coxian Gramsci', which has been criticised on epistemological, methodological and substantive grounds. The end result of this process is a substantial reworking of the concept of hegemony, analysed in this study mostly as constructed, performed and preserved by the state and its ruling bloc. Not dissimilarly from the Coxian perspective, hegemony is defined as a combination of coercion and consent. However, the main difference from existing accounts is that hegemony is conceived as an articulated phenomenon, which is shaped on three different dimensions, namely in the relation between structure and superstructure, national and international scale, material and ideational factors.

This triple articulation allows to take hegemony outside of the dilemmas which have thwarted neo-Gramscian efforts at understanding the evolution of the global political economy. With respect to the relation between structure and superstructure, thinking in terms of determination in the first instance by the economic and relative autonomy of the state allows to escape the twin problems of state-centrism and class-centrism, which still weaken the research agenda respectively of the Coxian school proper and of the Amsterdam school. Looking at the relation between international and national scale, the determination in the first instance by the international need not see the national scale as passive recipient of external forms of hegemony, as it happens with both the main strands of neo-Gramscian theory. Rather, the national scale is seen as directly engaged in the

adaptation, domestication and potentially also subversion of external pressures, using the relative autonomy from the international to devise its own specific path to capital accumulation. Lastly, on the material-ideational dimension, arguing for the relevance of the material constitution of ideology permits to understand how hegemonic projects are constructed and maintained not only by virtue of their ideological appeal, but are in the first instance determined by existing material conditions, though ideas then become a force of their own, eventually able to influence those material conditions that shaped their emergence in the first place.

The differentiated (between state and civil society) and articulated (on the three dimensions just discussed) conception of hegemony adopted in this study allows on the one hand to paint a more nuanced picture, particularly if we pin down the consensual aspect of hegemony to the actual benefits, however marginal, accruing to subaltern groups to gain their acquiescence to the existing order. On the other hand, the Gramscian approach developed here unveils the fragmented nature of hegemony, both at the national scale, exploring the conditions of existence of a system that is hegemonic towards some social groups and coercive and exclusive towards others, and in terms of interscalar articulation, with interlinking hegemonies moving across a spectrum ranging from identity to opposition. Yet, neither nuance nor fragmentation are meant to hide in any way the fundamental exploitative character of hegemony. After all, we are still referring to a 'heretic Marxist' (Femia 1981). Heretic in many respects, but Marxist nonetheless.

Chapter 2

THE GRAMSCIAN ARTICULATION APPROACH IN PRACTICE: DEBATES, THEORIES, METHODS

2.1. Introduction

This study aims to analyse the transformations in the constitution and reproduction of hegemony in Egypt during the last two decades of economic reforms. One of the risks of referring to a much used concept such as hegemony is to consider it as a working assumption, rather than a phenomenon – or better: the phenomenon – to be explained itself. This chapter takes the somewhat uneasy route of pushing hegemony to the background, in order to focus on the social and spatial relations providing the conditions for its emergence and shaping the forms that it may take.

In the previous chapter we have seen how hegemony emerges from a dialectical relation between structure and superstructure. We have also seen how this relation can be disaggregated in its three main instances. This chapter analyses how the relations involved in each of these three instances – between the economic and the political, the international and the national, the material and the ideational – are treated in the respective literatures, and makes the case that the articulation approach is a more fruitful entry point to understand the three dimensions on which hegemony is constituted, reproduced, transformed and potentially also destroyed.

Looking at these wider debates in the literature serves two important scopes. Firstly, it allows to concretise the highly theoretical approach developed in Chapter 1, bringing it closer to that ‘effective reality’ always at the heart of Gramsci’s concerns. Secondly, it gives the chance to put into sharper focus the added value of the approach developed in this work *vis-à-vis* the merits and limits of other approaches, particularly in critical IPE, which have dealt with the impact of neoliberal globalisation on the political economy of peripheral countries.

The first section takes a detour away from the literature to which this study aims to contribute, focusing on the conceptualisation of the relation between

economic and political change according to modernisation theory and to the accounts focusing on rent-seeking elites. A discussion of these mainstream approaches is useful not solely, or not particularly, because of their intellectual merits, but rather because of their influence on generations of policymakers, shaping their perception of processes of economic and political co-evolution, and thus effectively playing a performative role. The discussion of these mainstream approaches is followed by a further development of the Gramscian approach focusing on the articulation of accumulation regimes and political regimes. The second section looks at the workings of interscalar articulation, firstly discussing the body of literature on uneven and combined development on the differentiation of space within a single logic of capitalist development, and then moving to the discussion of how this issue has been tackled in critical IPE and area studies. The third section focuses on the articulation of material and ideational factors firstly in the understanding of world system theory and the Amsterdam school, and then in the positions expressed by the Coxian school and by constructivist literature. The final section discusses what sort of evidence is needed, and which methods are more appropriate, to assess the validity of the various approaches taken into consideration.

2.2. Forms of change: from accumulation regime to political regime?

The first instance of the structure-superstructure relation fundamental for understanding how hegemony is constituted, but also reproduced and transformed, refers to the articulation of economic and political factors. Indeed, one of the most common discussions in mainstream political economy, and even more so among practitioners, concerns the way in which economic transformations could spur political change. For example, the extremely influential literature firstly on modernisation and then on democratisation identified a causal link by which a certain type of economic changes, and most eminently the growth of a large and independent middle class, would also constitute a social pre-condition for the move towards democratic systems of rule (Lipset 1959 and 1994).⁵¹ The first two parts of this section discuss how modernisation theory and elite-centred approaches

⁵¹ On the influence of modernisation theory, and of the literature on political development born out of it, on the way policymakers think about the relation between economic and political change, see Cammack 1997.

respectively conceptualise the relation between economic and political change, with each of them providing a causal relation that will be discussed at length in Chapter 4 in the light of the empirical material presented. The third subsection criticises the conceptualisation of the relation between the economic and the political provided in this mainstream literature, arguing that it starts from the naturalisation of a separation between the two realms which instead is an *apparent* one (Morton 2007a: 130), promoted by the concomitant affirmation of capitalist relations of production and the interstate system. From this position, the relation between the economic and the political, and between accumulation regime and political regime as their forms of regulation, can be reconceptualised from a non-reductionist yet class-based perspective. This account argues that pre-existing class relations determined in the first instance the extent of the change in the accumulation regime, which eventually produced a shift in the relations of class forces. This shift provided the boundaries within which relative autonomy could be exerted in the form of the reconfiguration of power relations within the political regime.

2.2.1. *Modernisation theory: development, democratisation and the middle class*

Structural change, variously defined, is at the heart of the considerations of a sizeable literature that has also considerably influenced policymakers.⁵² Modernisation theory, and then democratisation theory as its most influential offspring, provided an explanation of how changes in the economic structure might also lead to political change. In its most synthetic formulation, modernisation theory argues that all societies go through five stages of economic development: traditional, transition, take-off, drive to maturity and age of high consumption (Rostow 1960: 4-11).⁵³ Whereas their core interest is in identifying the conditions for successful economic development, it is possible to read between the lines an implicit argument on the potential transmission of economic change to the political sphere. As economic development occurs, society becomes functionally more complex and socially more mobilised,⁵⁴ and centralised forms of government are likely to be

⁵² The following part on modernisation and democratisation theory relies heavily on Rocca (2011). Hinnebusch (2006) provides an excellent review of the literature on the apparent misfit between democratisation theory and authoritarian resilience in the Middle East.

⁵³ Whereas some flexibility in the timing is allowed, there are little doubts that all these five stages are necessary, and in this specific sequence, for successful modernisation to occur.

⁵⁴ The expert eye will notice the striking similarity between this formulation by modernisation theory and Parsons' structural functionalist approach to sociology (1951),

increasingly under strain, thus making more likely the transition towards more open political regimes.⁵⁵

Building on this argument, in his 1959 study Lipset identified a positive correlation between economic development and democracy. To put it in his own terms, 'the more well-to-do a nation, the greater the chances that it will sustain democracy' (1959: 75).⁵⁶ Why does this happen? According to Lipset, economic development influences significantly 'the political role of the middle class through changing the shape of the stratification structure so that this shifts from an elongated pyramid, with a large lower-class base, to a diamond with a growing middle-class'. Thus, a consequence of economic development is the increased *size* of the middle class, and a 'large middle class plays a mitigating role in moderating conflict since it is able to reward moderate and democratic parties and penalise extremist groups' (Ibid: 83). During his 1993 presidential address to the American Sociological Association, Lipset further developed his argument, by maintaining that industrial capitalism 'produces a middle class that can stand up to the state and provide the resources for independent groups' (1994: 2). Through this extension, Lipset brings into the picture another element supporting the democratic orientation of the middle class in developed countries: its *autonomy* from political power.

In the literature on democratisation spurred by the 'third wave', Huntington also identified the middle class as the key agent of democratic transition. With the weakening of radical rural movements and the strengthening of the urban middle class produced by industrialisation and urbanisation, Huntington argued, '[t]he potential threats democracy posed to middle-class groups thus declined, and those groups became increasingly confident of their ability to advance their interests through electoral politics' (1991: 67). At the same time, economic development can undermine authoritarian regimes in the form of rapid growth building up a set of

which had become extremely influential in US academia during the first years of the Cold War.

⁵⁵ The first approaches of this type on the Middle East came as early as in the late 1950s. See in particular Issawi (1956) and Lerner (1958).

⁵⁶ More specifically, Lipset unpacks economic developments into what he considers its four basic components: wealth, industrialisation, urbanisation and education. Several indicators for each of these components are identified, and the empirical analysis shows that the higher the value of each of the four components, the more likely that the country under examination will sustain a democratic political system.

pressures that the incumbent regime is unable to manage and contain.⁵⁷ Crucially, and as illustrated with reference to the Brazilian case, if these pressures are tackled through opening up the economic system to foreign trade and investment, democratisation will follow. On the other hand, the Chinese and Iranian examples show how when rapid growth is confronted with sustained economic closure, either repression or revolution ensues (Ibid: 70-2).

The passage from economic liberalisation and strong private sector participation in the economy to economic development and then to democratic transition constitutes the causal chain maintained by modernisation and democratisation theory. After all, ever since Rostow, the open economy was widely seen as the end state 'natural' to democracies. Thus, if economic and political openness are related, so must the processes leading to them. This correlation became ever more appealing since the 1970s with the increase of economic interdependence on a global scale. In particular, three mechanisms leading from economic to political openness have been hypothesised: political openness further encourages economic development, and thus beneficiaries of the latter will push for the former (Lipset 1994; Im 1996); economic development empowers capital owners and entrepreneurs with a stake in the smooth operation of international business and thus less conflict, an outcome better achieved through democratic means (Oneal and Russett 1999; Boix 2003); political development levels down economic inequality, thus widening the domestic market and providing a further source of economic development.

In sum, we can see a set of three main claims emerging with regard to the relation between economic development, democratisation and the role of the middle class. Firstly, capitalist development leads to the emergence of a strong and autonomous middle class. Secondly, in virtue of being both strong and autonomous, the middle class has a strong interest in leading democratic transitions. Thirdly, both in times of recession and of rapid economic growth (as they both unsettle the pre-existing social structure), economic opening improves the prospects for successful democratic transition. Once again, this happens because the middle class is the main beneficiary of economic liberalisation and private sector strengthening. In sum:

⁵⁷ In much the same way, economic recession can rattle the existing social structure and thus lead to similar consequences (Ibid: 59).

Changes in the capital accumulation regime lead to a strengthening of the middle class (more inclusive social structure), which pushes for a change in the political regime.

2.2.2. *Predatory elites: development, rent and the power of the powerful*

The promotion of economic reforms on the part of international financial institutions (IFIs) since the 1980s led to the emergence of a literature analysing the relation between economic development and political regimes from a remarkably different position. This perspective is held together by a specific focus on agency rather than structure, and on some agents more than others. Three main strands may be identified in this literature, focusing respectively on elites and distributional coalitions, the state as an actor, and informal networks. All these accounts start from the assumption that actors are driven by considerations of self-interest, but they differ significantly with respect to their conceptualisation of their social groups of reference and of their interactions.

The most influential accounts on the political economy of IFIs promoted reforms in developing countries were informed by a focus on elites and distributional coalitions (Nelson 1989; Haggard and Kaufman 1992 and 1995). Following a well-established tradition in the literature on pressure groups and collective action (Olson 1971; Becker 1983), both elites and distributional coalitions are assumed to base their actions on considerations of welfare maximisation. When it comes to closed economic regimes, this assumption translates into a rent-seeking behaviour, as elites want to use the positional advantage acquired in the previous regime to consolidate their position within the reformed economic system (Krueger 1974).⁵⁸ Thus, according to these accounts the interaction of elites, and their ability of reaping most of the benefits of reform, plays against a potential spill-over from the economic to the political sphere.

A second strand looks at the requisites that the state must possess for economic reforms to be successful. The focus on elites and distributional coalitions was perceived as being too narrow, in that it tended to conceptualise the state –

⁵⁸ A similar focus on elites and distributional coalitions also characterises a substantial portion of the literature on democratic transition, even though in this case the attention shifts towards the purely political domain (Diamond, Linz and Lipset 1989; Linz and Stepan 1996). The neglect of economic dynamics is usually replaced by simplistic assumptions, as pointed out by a commentator arguing that ‘much of the current theorising in the political development literature eschews economic variables while assuming that market reforms will enhance democratic prospects’ (King 2003: 133).

along the lines of pluralist theory – as an arena where interest groups compete for achieving their objectives. Already during the mid-1980s thus there was a call for ‘bringing the state back in’ (Evans, Rueschemeyer and Skocpol 1985). Following this spirit, scholars such as Evans, Waterbury and Kahler have identified the institutional qualities facilitating successful economic development, for example referring to concepts such as the embedded autonomy of the state (Evans 1995). Yet, despite being conceptualised in institutional terms, the empirical analysis tended to collapse on the study of ‘strategic state elites’ (Heydemann 2004: 10), and their pursuit of private interests through state instruments. By conflating the state with its most relevant decision-makers, these accounts explain successful economic development in terms of sufficient isolation of the state from societal pressures combined with some basic accountability and responsiveness. The discussion of the democratic prospects is very rarely touched upon, perhaps based on the consideration that state elites do not have much interest in opening up the political system as long as economic development provides enough rent to them and marginal benefits to the population, preventing social unrest.

Informal networks are at the core of the analytical toolkit of the third strand of agential explanations. According to Heydemann, existing literature on the political economy of reforms explained the outcome of the reform process – its winners and its losers – solely on the basis of the prior structure of the political economy. Because of their flexible and cross-cutting nature (Granovetter 1992; Degenne and Forse 1999), networks are better suited to explain the politics of economic reforms in the developing world, and even more so in authoritarian settings. From such a standpoint, and against the consideration of rent-seeking as detrimental to successful economic development, Heydemann argues that rent-seeking should be seen as a precondition for the success of market-oriented reforms, as appeasing rentiers may be an appropriate strategy for policymakers to secure support for and compliance with reforms that ‘broaden the scope of markets and of economic inclusion even if they do so imperfectly’ (2004: 11). Thus, informal networks have a positive impact in that they produce suboptimal outcomes, leading to the emergence of liberalised yet not entirely liberal economic systems. Again, as the process is carried out through the alliance with well-placed networks, the possibility of the spill-over from the economic to the political domain is considered unlikely. In short:

Changes in the capital accumulation regime lead to a different structure of incentives where actors in a privileged position are able to appropriate most of the benefits, without significant repercussions on the political regime.

2.2.3. Gramscian approach: regimes, social classes and articulation

The debate on how the relation between economics and politics should be conceptualised is also at heart of much debate in critical IPE. Neo-Gramscian accounts have been criticised from an orthodox Marxist standpoint for their ‘pluralist empiricism’, with the state and the market being treated as separate, and indeed opposed, forms of social organisation (Burnham 1991 and 1994). In this respect, Coxian approaches fall into the same trap of mainstream approaches: the naturalisation of a separation that, while useful if treated as an analytical distinction, becomes misleading exactly in the moment in which it is essentialised and taken as the starting point of analysis. Rather, the separation between capital and state, and thus between economics and politics, is better treated as apparent, and as promoted by capitalist relations of production. In this respect, it is not inappropriate to conceptualise the relation between capital and state as emergent, as done by critical realist scholars (Jessop 2010; Joseph 2010), thus conceiving of them as intimately related yet irreducible to each other.⁵⁹

Following Jessop, both capital and state are to be understood as social relations, and more specifically as *form-determined social relations* (1990 and 2010). This move is perfectly consistent with Gramsci’s insistence on looking at the state, and by implication at the economy, in ‘its inclusive sense’, and thus away from any reified or fetishistic conception (1975: 1358-61, Q10§61). If the state is considered not merely in terms of state apparatus, but as ‘an institutional ensemble’, then state power can be defined as ‘a form-determined condensation of the changing balance of forces in political and politically relevant struggles’ (Jessop 2010: 192). Similarly, if capital is conceived inclusively as a form-determined social relation, then ‘capital accumulation is the complex resultant of the changing balance of class forces in struggle as they interact within a framework determined by the value-form’ (Jessop 1990: 197), intended as the fundamental relation linking together different elements

⁵⁹ The debate on the relation between tendentially global capital and tendentially national forms of territorial organisation is discussed in the next section, being this the main reason for thinking in terms of spatial scales rather than relying on the more common IR distinction of levels of analysis.

- from production to circulation to redistribution - and defining the parameters of capitalist development.

The process of capital accumulation cannot proceed unfettered, as its chances of succeeding are related to the management of what Jessop calls 'the changing balance of class forces', and thus ultimately to the management of social conflicts arising from contradictions embedded in the capital relation. This necessity of managing the process of capital accumulation is the core concern of the regulation school.⁶⁰ In this regard, the concept of *accumulation regime* is proposed, defined as the 'institutional ensemble and complex of norms which can secure capitalist reproduction *pro tempore* despite the antagonistic character of capitalist social relations' (Jessop 1990: 308).⁶¹

Capital accumulation does not come with a regime of regulation attached, and the latter is usually constructed by political and economic actors. Bob Jessop has fleshed out the relation between capital accumulation and hegemony left implicit by Gramsci, providing us with the concepts of *accumulation strategy* and *hegemonic project*. The former is defined as 'a specific "growth model" complete with its various extra-economic conditions' (1990: 198). On the other hand, hegemonic project refers to the mobilisation of support behind a concrete political, social and cultural programme that ultimately advances the long-term interests of the hegemonic class. The distinction between the two is best elucidated in the following passage:

While accumulation strategies are directly concerned with economic expansion on a national and international scale, hegemonic projects can be concerned principally with various non-economic objectives (even if economically conditioned and economically relevant). The latter might include military success, social reform, political stability or moral regeneration. Moreover, while accumulation strategies are oriented primarily to the relations of production and the balance of class forces, hegemonic projects are typically oriented to broader

⁶⁰ As with neo-Gramscian approaches, regulation school is split into several strands. In their extremely accurate review, Jessop and Sum identify and discuss seven different schools within the wider regulation approach (2006: 13-57).

⁶¹ By focusing on the accumulation regime only, I am purposefully simplifying the conceptual apparatus of regulation school, which usually refers to the triad of accumulation regime, mode of regulation and mode of development (Aglietta 1979; Lipietz 1988; Boyer 1990). I deem this simplification to be necessary in order to avoid getting bogged down in the details of regulation school, losing sight of the main aim of the discussion.

issues not only in economic relations but also in the field of civil society and the state (1990: 208).

Each accumulation strategy can be related to several alternative hegemonic projects, and on the other hand the success of the latter is dependent on their ability to relate to an existing or prospective accumulation strategy. Once again, this is entirely consistent with Gramsci's conception of hegemony, which 'must also be economic, must necessarily be based on the decisive function exercised by the leading group in the decisive nucleus of economic activity' (1971: 161, Q13§18).

In this study, the discussion focuses on the change of accumulation regime in Egypt from *étatisme* towards neoliberalism. *Étatisme* is defined as an accumulation regime characterised by the predominant role of the state in the economy. More specifically, state intervention encompasses all the main aspects of economic activity: incentive-setting, planning, coordination, production and management (Wahba 1994: 16-7; Ayubi 1995: 31).⁶² *Étatisme* relies on the state also with respect to the management of 'the antagonistic character of capitalist social relations'. More specifically, it is the task of the state to provide for a corporatist and/or populist arrangement able to contain social conflicts (Hinnebusch 1985: 28-9; Ayubi 1995: 191-4). On the other hand, *neoliberalism* is used here to identify a regime of capital accumulation characterised by a minimal direct intervention of the state in the economy, limited to setting up the legal, political and military functions required to guarantee the proper functioning of markets and their creation in those sectors where markets do not exist (Harvey 2005: 2).⁶³ According to Harvey, neoliberalisation – that is: the process by which a neoliberal regime of capital accumulation is established – is characterised by four features: privatisation of

⁶² Being defined as an accumulation regime, *étatisme* is not a mode of production, but rather one of the forms of regulating capital accumulation under capitalism, and is thus located at a lower level of abstraction than the mode of production. At the same time, *étatisme* has been used as an analytical category to understand the Middle Eastern economies even before the spread of capitalist relations of production. This shows that *étatisme* as an accumulation regime can exist also within other modes of production, such as the tributary mode eminently discussed by Samir Amin (1974 and 1976).

⁶³ A review of the rich and detailed literature on the genesis and diffusion of neoliberalism on the international scale lies beyond the scope of this study. However, the two inescapable starting points to understand the emergence of neoliberalism are the excellent and surprisingly complementary accounts provided by Blyth (2002) and Harvey (2005).

public assets, financialisation of the economy,⁶⁴ management and manipulation of crises, state redistributions in favour of the upper classes (2005: 159-65). The overall result of neoliberalisation amounts to what Harvey calls 'accumulation by dispossession', that is: the persistence of forms of primitive accumulation, ranging from resource extraction to privatisation of property rights to asset-stripping, within the capitalist mode of production.

The chances of success of any given hegemonic project, and the functioning of any given accumulation regime, are related to the way in which political power is organised, and thus the specific form taken by the state. The form on which the literature insists the most is the *political regime*, intended as a combination of procedural rules, formal or informal, determining in which way which actors can access which decision-making position regulated by which rules, and the acceptance, strategic or normative, of this system by all the major actors involved (Munck 1996: 5-11). In our specific case, we need a definition for authoritarian regimes, and on this issue the classical definition by Linz is still unsurpassed, describing authoritarian regimes as 'political systems with limited, not responsible, pluralism, without elaborate or guiding ideologies, but with distinctive mentalities, without extensive nor intensive political mobilisation, except at some points in their development, and in which a leader or occasionally a small group exercises power within formally ill-defined limits, but actually quite predictable ones' (1964: 255). Even though such a definition was obtained by contrasting the features of democracy and totalitarianism, the virtual disappearance of the latter does not make this definition any less valuable.

Beyond the institutional definitions above of accumulation and political regimes, one should not forget that both capital accumulation and state power are social relations. Thus, it is imperative to look at the specific social groups and how they are represented in the political regime, and at the balance of class forces and how they are embedded in the accumulation regime. With respect to the political regime, the strategic selectivities of the state allow some actors to influence decisions more than others.⁶⁵ Gramsci's concept of *ruling bloc* identifies a coalition of

⁶⁴ Financialisation is defined here as 'a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production' (Krippner 2005: 174).

⁶⁵ The concept of strategic selectivity has also been developed by Jessop (1990 and 2008). The assumption behind it is that structures are not neutral in two fundamental ways. Firstly,

social groups constituting the base of support of a given political regime. Depending on its composition and on its ability to win the consent of the majority of the population, a ruling bloc can also be a hegemonic bloc. The hegemony of the ruling bloc is then the precondition for the emergence of the conjunction between structure and superstructure at the heart of the concept of historical bloc discussed in Chapter 1. Indeed, the relation between these social forms leads to one of the key research questions investigated in this study, and namely: was the ruling bloc in Egypt under Mubarak also a hegemonic bloc?

On several occasions the reader will notice that the term *elites* will be used interchangeably with the more precise ruling bloc. Elites are to be intended as referring to the social forces that ‘wield political influence and power in that they make strategic decisions or participate in decision-making on a national level, contribute to define political norms and values (including the definition of “national interest”), and directly influence political discourse on strategic issues’ (Perthes 2004: 5). Is this study of elites incompatible with a Gramscian approach? The *Prison Notebooks* contain numerous passages against elite theorists such as Mosca, Pareto and Michels. Yet, Gramsci’s critique is a qualified one, as it suggests not the uselessness of the concept, but rather its neglect of ‘relations of force’, which belies the political objective of elite theory: discrediting the Marxist concept of the ruling class and replacing it with concepts such as ‘political class’ and these such as the ‘iron law of oligarchy’, which obfuscate the class dimension implicit in the political rule (1971: 6n, Q8§24; 150, Q13§21; 176, Q13§2).

It is thus important to look at social groups, and at their position in relations of production. Referring to the classical Marxian concept of classes, and class fractions, allows us to understand the link between social structure, accumulation regime and political regime. Class fractions are defined with reference to the fraction of capital they represent in the circuit of capital accumulation: productive capital, commodity capital (commercial), money capital (banking/financial) (Van der Pijl 1984: 3). This differentiation significantly enriches the traditional distinction

similarly to *path-dependency* approaches, past decisions always have an impact on current decisions, and this creates pressures bearing upon the courses of action that might be pursued by different actors. Secondly, structures also have a *path-shaping* power over actors, differentially empowering and disempowering specific actors, thus creating an unevenly distributed configuration of opportunities and constraints.

between the rentier class, the bourgeoisie and the working class,⁶⁶ showing potential fault lines within the same class. In this respect, the constitution of a ruling bloc to support a given political regime which in turn enforces an accumulation regime is to be considered as a 'truce' beyond these clashes of interests in order to ensure the reproduction of capitalist social relations.

The social structure in Egypt at the end of the 1980s, the starting point of this research, could be characterised as follows. The ruling bloc included three main components.⁶⁷ The first, both in terms of size and actual power, was the public sector. It could be further subdivided into the army, which held the main levers of power since 1952, and the bureaucracy, including both managers of state-owned enterprises (SOEs) and civil servants. The second component was the state-dependent bourgeoisie which had been created by the *infitah* reforms carried out by Sadat during the mid-1970s. The third component was the landed elite. Regardless of their disparate positions with respect to social relations of production, these groups - and the coalition they had created - constituted the linchpin for the preservation of the authoritarian regime when Egypt faced the late 1980s fiscal crisis. Increasingly outside of the unravelling corporatist social pact one could see both the working class and the peasantry.

Regulation theorists often focus on the incremental changes operated by policymakers within a given accumulation regime, but there are also some cases in which a regime of capital accumulation is not workable anymore, as, for reasons which may be located on the national scale or beyond it, the contradictions of the capital relation cannot be managed any longer within the given accumulation regime. What happens when the ruling bloc realises that what is needed is not a change *within* the accumulation regime, but rather a change *of* regime? How is this change influenced by pre-existing class relations? And what are the consequences of this shift on the political regime? These are the questions addressed by Chapter 4. And this is the main thrust of the argument supported:

⁶⁶ One should keep in mind that whereas the definition of both bourgeoisie and working class derive directly from relations of production, the rentier class is based on the ownership of land and property, and thus on relations of distribution rather than production strictly conceived.

⁶⁷ In the mid-1980s, Hinnebusch provided an excellent empirical study of the transformations in the Egyptian elite under Sadat, and in particular with reference to a first wave of technocratisation in the bureaucracy, with engineers becoming significantly more important (1985: 78-157).

Changes in the capital accumulation regime are influenced by the pre-existing class structure, and themselves lead to changes in relations of class forces, providing the conditions for a reorganisation of power in the political regime.

2.3. Sources of change: the issue of spatial scale

The second dimension on which hegemony is constituted, reproduced and transformed is the articulation between different spatial scales. If hegemony always originates on the national scale, how does it extent beyond this? Similarly, once an hegemonic project is internationalised, how does it penetrate into national scales other than the one it originates from? We must bear in mind that this discussion has to build on the consideration that hegemony is inescapably related to social relations of production and to capital accumulation. However, when the variable 'space' is brought into this debate, one often stumbles on one of the fundamental dilemmas in Marxist social theory: what is the relation between the inherently globalising tendencies of capital⁶⁸ and the persistence of relatively fixed forms of territorial organisation?

Starting from an inclusive definition of 'the international', this section analyses the debate on the relation between capital and state with respect to the key geographical concept of spatial scales. It then discusses how the existing literature conceptualises the relation between the international and the national scale in the age of neoliberal globalisation, before suggesting the reasons that make the articulation approach a more fruitful starting point for analysing interscalar relations.

2.3.1. 'Swallowed' by capital? Debates on economic change, scale and the state

The focus on accumulation regimes, political regimes and social classes examined in the previous section requires a definition of 'the international' that allows to keep in both the spatial dimension implicit by the very idea of territorial organisation, and the social dimension at the heart of class structure, and of the regulatory tasks of both the accumulation and the political regime. The definition provided by Rosenberg, considering the international as 'the dimension of social reality which

⁶⁸ This tendency was eminently summed up by Marx in these terms: 'The tendency to create the world market is directly given in the concept of capital itself. Every limit appears as a barrier to be overcome' (1973: 408).

arises specifically from the coexistence within it of more than one society' (2006: 308), is concise and inclusive enough for the purpose of this study. At the same time, it is also compatible with one of the few annotations made by Gramsci on the relation between 'the international' and the social (1971: 176, Q13§2):

Do international relations precede or follow (logically) fundamental social relations? There can be no doubt that they follow. Any organic innovation in the social structure [...] modifies organically absolute and relative relations in the international field too. Even the geographical position of a national State does not precede but follows (logically) structural changes, although it also reacts back upon them to a certain extent (to the extent precisely to which superstructures react upon the structure, politics on economics, etc.). However, international relations react both passively and actively on political relations (of hegemony among the parties).

How is it possible to reconcile the fragmentation of space, implicit in both the definitions provided above, with the globalising tendencies of capital accumulation suggested by Marx? This concern is at the heart of a substantial literature in IR theory focusing on the relation between the emergence of capitalism and that of the interstate system (Rosenberg 1994; Teschke 2003). In what is a wide-ranging critique of the realist orthodoxy in IR theory, and particularly of the myth of the self-generated and self-sustaining Westphalian system, Teschke points out how state formation in the XVII and XVIII century, and thus the emergence of the wide interstate system, has to be located within the tracks of capitalist modernity. More specifically, he suggests that the rise of the interstate system would not have been possible without the concomitant emergence of capitalist relations of production, which in turn were strongly shaped both by the crisis of the feudal system and by the affirmation of the absolutist state (2003: 7-8). Thus, also the fragmentation of the political space – and hence one of the key distinctions of mainstream IR theory, between domestic and international politics – is the naturalisation of an historical process whose analysis reveals patterns of complex causation and mutual constitution.⁶⁹

⁶⁹ Indeed, Rosenberg argues convincingly that the emergence of the distinction between state and market, and thus between the political and the economic, is a result of the twin emergence of capitalism and the interstate system, with the transformations brought about

According to these accounts, the affirmation of capitalist relations of production in England by the end of the XVII century created an uneven playing field for the implicit expansionist tendencies of capital accumulation. As a consequence, state formation and consolidation elsewhere became influenced by the uneven social development brought about by the spread of capitalism, forcing states configured by pre-capitalist relations to combine different forms of development (Rosenberg 1996: 8-10; Rosenberg 2005: 68-9; Morton 2007a: 47-8). This is what Trotsky meant when arguing that processes of uneven and combined development (U&CD) shaped the peculiar developmental path followed by Tsarist Russia (1980: 3-15).

If the relation between capital accumulation and state power is to be conceptualised as internal, then we might as well dispose of the levels of analysis characteristic of mainstream IR theory (Waltz 1959; Singer 1961). This study prefers to speak of spatial *scales* rather than levels of analysis for two reasons. Firstly, much more than 'level', the term 'scale' gives a much better sense of the necessary connection between different spatialities. In other words, whereas levels could be separated from one another, the relation with other configurations of territorial organisation is constitutive of the concept of scale. Secondly, thinking in these terms allows to ask the question of how different spatial scales – global, international, national, local – are nested into one another, leaving at the same time room for differentiation at each scale, and thus suggesting that what is to be investigated in the last instance are the mechanisms driving interscalar articulation (Jessop 2008: 104-6).

The specific role of the state in the tendentially endless and limitless process of capital accumulation has been thoroughly investigated by the French social geographer Henri Lefebvre. In his view, spatial scales are better conceived as both boundaries ('space envelopes') and hierarchies of social relations. Among several spatial scales, the state has a privileged position as over the last centuries it has consolidated itself as 'a relatively fixed and immobile territorial configuration upon which each round of capital circulation is grounded' (Brenner 1998: 468-9). Within the hierarchy of nested scales, the relative fixity of state territorial organisation

by capitalist development leading to an abstraction of state sovereignty from civil society: 'an abstraction which is constitutive of the private sphere of the market, and hence inseparable from capitalist relations of production' (Rosenberg 1994: 123-4).

provides a safe haven from where capital, commodities and labour attempt to increase their own mobility both within and outside the state itself (Lefebvre 1991: 388-9). This key role of the state for capital accumulation has two main dimensions. Firstly, the presence of a state coercive apparatus is essential to guarantee the conditions for primitive accumulation. This in turn allows capitalist relations of production to get started in the territory under the control of the specific state, eventually extending commodification to other factors of production (land and labour) and allowing capital to become self-valorising, with the creation of a credit system. The persistence of forms of primitive accumulation also in advanced industrial societies suggests that this exercise of state power to facilitate capital accumulation is still a relevant feature worth considering today.

The state is fundamental for capital accumulation also in a second crucial respect. As Castells put it, capital accumulation needs not only a 'space-of-flows' but also a 'space-of-places' (1989). Thus, whereas capital can circulate relatively unbounded in its credit form, and ever more so under neoliberal accumulation regimes, it must also take fixed forms, either in the more traditional shape of infrastructures and social expenditure or in the more recent configurations of global cities, industrial districts and agglomeration economies. This continuing relevance of state power for capital accumulation also implies that Marx's assertion regarding the tendency of capital to 'annihilate space by time' (Marx 1973: 539) is bound to remain tendential, or, as Harvey put it: 'spatial organisation is necessary to overcome space' (1985: 145).

Once we move towards thinking in scalar terms, and we ascertain the persisting relevance of the state as one of the crucial spatial scales, the issue becomes which scales to consider and how to 'measure' them. This study focuses on two scales. '*The international*' as the inter-societal dimension of social reality is taken as a single scale,⁷⁰ whereas *the national* is the other scale considered.⁷¹ Institutions are then taken as the most reliable proxy of spatial scales. This is because international

⁷⁰ Thus, global and international scale are considered as synonymous for the purpose of this study. Importantly, Gramsci himself uses the Italian corresponding translations - *internazionale* and *mondiale* - as synonyms.

⁷¹ I am aware that this choice runs the risk of conflating the state dimension with the national dimension, thus once more essentialising a process which is contingent (i.e.: the emergence of the nation-state as a form of territorial organisation). Yet, I believe that the Egyptian case allows for an exception in this respect, being Egypt one of the few post-colonial states where state largely coincides with nation.

institutions constitute one of the mechanisms by which specific accumulation strategies and hegemonic projects are projected on the international scale (Morton 2007a: 120). Gramsci himself, after all, had suggested that international organisations such as the Rotary Club, the Catholic Church and to a lesser degree the League of Nations had been fundamental for the expansion of capitalism on a global scale (1975: 541, Q5§2; 2146-7, Q22§2).

The way in which scales are articulated is the main point of contention in the burgeoning literature on the impact of neoliberal globalisation on developing countries. On this aspect, authors tend to coalesce around two positions, discussed in Chapter 5 in the light of the empirical material presented. Most of the literature broadly inspired by Gramsci, either in the already discussed Coxian and Amsterdam School variants or in the more eclectic accounts provided by Sklair (2001) and Robinson (2004 and 2006), maintain that the spread of neoliberal globalisation on the international scale has led to the increased *dominance of transnational factors* over national ones. Already in the 1981 article Cox had identified the roots of globalisation in the internationalisation of production and finance, which had led to the emergence of a 'transnational managerial class' (1981: 147). On his footsteps, Stephen Gill had then showed how particularly the transnationalisation of production induced a fragmentation of both capital and labour into those supporting transnationalisation and those opposing it from a national standpoint (Gill 1995: 400-1). According to these authors, this process led to a weakening of the state, through the rise of actors beyond the reach of state power, such as multinational corporations and informal directorates as the Trilateral Commission and the Bildenberg group (Gill 1990), or more subtly through the increasing penetration of social forces promoting transnationalisation into the state apparatus (Cox 1992: 31). This amounts to 'a global class structure alongside or superimposed upon national class structure' (Cox 1981: 147), or – more starkly in the words of Robinson – 'the supersession of the nation-state as the organising principle of the capitalist system' (2003: 6, in Morton 2007a: 140). Applied to the Egyptian case, the argument maintained by these authors would translate as follows:

The international/transnational/global scale is the main source of the changes experienced by the Egyptian political economy.

This position could easily be criticised arguing that the role of state is dramatically understated. This is what happens for example in most literature focusing on the political economy of reforms in the Middle East, which in some cases border what Fred Halliday labelled 'regional narcissism'.⁷² In the extremely clear exposition recently provided by Schlumberger (2008), the argument proceeds as follows. Over time, the Middle East has consolidated itself as a region characterised by a concentrated political control over the economy, and thus typically by authoritarian systems of rule, and by the prevalence of informal modes of interaction, such as patronage and *wasta*,⁷³ over formal ones (2008: 622-3). This provides for a heavily hierarchical political system, which puts the state, and thus the regime and its support coalition, in an ideal position to defuse the pressures built by neoliberal globalisation, and even more specifically by IFIs promoting a specific set of policies in order to reform the national economies. Following from this privileged position on the national scale, the regime and its main components are largely in control of any reform process initiated, and will thus implement only those measures that guarantee their survival, or even better the consolidation of their own position. As Heydemann put it (1992), *the political logic of power maintenance takes precedence over the logic of economic efficiency* advocated by IFIs. Thus, in times of crisis and under the spectre of conditionality, some reforms are implemented because under severe economic pressures every form of relief, be it aid package or debt cancellation, is welcome. However, policies that are perceived as having the potential of endangering the status quo, and thus the stranglehold on political power, will be delayed, implemented selectively and/or partially (Schlumberger 2008: 630). As a consequence of this, regardless of the intentions of international institutions promoting a shift in the accumulation regime, the resilience of the national scale, embodied by the regime and its domination of the domestic institutions, will lead to a 'domestication' of these pressures, and to what is ultimately a manipulation of economic processes for political purposes. Translated for the Egyptian case:

The national scale is the main source of the changes experienced by the Egyptian political economy.

⁷² Defined as 'the belief that the whole world spends all its time plotting and worrying about the Middle East, and that everything that happens in the region is somehow dissimilar to that which takes place elsewhere, and is singularly evil or angelic as a result' (2005: 10)

⁷³ It means literally 'intercession' or 'intermediation'. Sharabi (1988) provided an unsurpassed study of these social psychological mechanisms allegedly typical of the Arab world

A Gramscian approach such as the one developed here tries to refrain from these extremes. On the one hand, while acknowledging the increased relevance of actors and factors beyond the control of states in the global political economy, it would point – as mentioned above – towards the continuing relevance of forms of territorial organisation for facilitating capital accumulation. On the other hand, while recognising the fundamental mediating influence of state institutions as expression of the national scale, it would not forget the inherently expansionist tendencies of capital accumulation, particularly from the point of view of countries at the periphery of the capitalist global economy. Hence, the articulation approach pays heed to the advice by Agnew to avoid both the territorial trap of accepting *a priori* the prominence of fixed state territoriality and the opposite tendency of seeing fragmented territorial organisation giving way to an undifferentiated global or transnational whole (1994: 72-6).

A way of linking these two processes may be found by looking at the state as the point of condensation of social forces on the national scale, conceived as *nodal scale*, defined as ‘the primary loc[us] for delivering certain activities in a given spatio-temporal order’ (Jessop 2008: 106). This does not necessarily mean that the national scale is also the dominant one,⁷⁴ but rather that there is an articulation among different spatial scales, with organisations at each scale being related to and limited by organisations on other scales, but at the same time maintaining a room for relatively autonomous action, which feeds back on both lower and higher spatial scales.

The most important, and most used, strategy of interscalar articulation on the national scale in peripheral countries is what Gramsci called *passive revolution*, intended as a process of adaptation of the economic structures to the increasingly pressing demands of global capital accumulation accompanied by a restoration of political relations under the control of a ruling class or ruling bloc headed by a specific class fraction. In the specific Egyptian case, this would mean that capitalist relations of production were effectively transformed, with the move away from an *étatist* towards a neoliberal accumulation regime. However, this shift was mediated

⁷⁴ Scale dominance being defined as ‘the power which organisations at certain spatial scales are able to exercise over organisations at other, higher or lower scales’ (Collinge 1999: 568, quoted in Jessop 2008: 106).

in a crucial way by the peculiarities and dynamics of the national scale, hence providing one such case where initial unevenness produces the conditions for combined development. This has two fundamental consequences. On the one hand, the incipient shift towards a neoliberal accumulation regime mobilised the class forces empowered by it towards exploiting reforms for their own economic and political advantage. On the other hand, the interaction of these two dynamics provided for a form of neoliberalism substantially different both from the form seen in early 'neoliberalisers' and from that hoped for by its international supporters.

According to this perspective, the relative influence of different spatial scales on the economic course followed by Egypt is crucially linked to transformations in the class structure. More specifically, a first phase of reforms in which the national scale was mostly the executor of decisions taken elsewhere produced a relative alignment of the class structure on the national scale (empowering private capitalists over the public sector component) with prevailing class relations on the international scale. This shift eventually allowed the national scale to gain more autonomy with respect to its own developmental path. Reduced to its essence, this is the argument deriving from this approach discussed in Chapter 5:

Change in relations of class forces (towards a relative alignment with prevailing class relations on the international scale) is the main factor for understanding the changing role of different scales in the Egyptian political economy.

2.4. Reasons for change: instrumentality and belief

Because of Gramsci's emphasis on coercion and consent, the third dimension upon which hegemony is articulated, as a relation between material factors and ideas, is the one most treated in critical IPE literature. Yet, this relation has been conceptualised in starkly different ways. This section discusses critical and constructivist IPE approaches,⁷⁵ arguing that they might be grouped into two main perspectives. It then enucleates the added value of the Gramscian approach developed here, which, while grounding ideas in material conditions, it gives them

⁷⁵ Whereas it arguably started on the margins of the discipline, it is now undeniable that over the past two decades social constructivist approaches have increasingly made their way into the mainstream of the discipline, with works such as Ruggie (1982), McNamara (1998) and Blyth (2002) becoming essential readings in most IPE syllabi on both sides of the Atlantic and beyond.

the opportunity to feed back on those, and eventually play out a relatively autonomous role also in the constitution of material reality.

2.4.1. *'Capital ideas' or ideas for capital? Debates on economic change and ideas*

The conceptualisation of the relation between material factors and ideas is one of the thorniest issues in Marxist theory, as the very label of historical materialism lends itself to misinterpretations. As a proof of this, there are nearly as many conceptions of how ideas relate to the material factors as there are Marxists.⁷⁶ For this reason I deem useful to group accounts on this issue into two main positions. On the one hand, world system theory and the Amsterdam School tend to conceive ideas as subordinate to the material structure, and at best grant them a legitimising function for the domination of the ruling class, or fraction thereof. On the other hand, both the Coxian School and constructivist approaches tend, in very different ways, to divorce ideas from material factors and give entirely autonomous causative power to the former.

In what Van der Pijl calls 'strong' systems theory (2009: 167), best exemplified by the work of Wallerstein (1974), the role of both class struggle and ideas is almost entirely forsaken. The former is left aside already from the very definition of capitalism as profit-driven economic activity, with the following understatement of the role of exploitation and thus asymmetry in social relations of production in the constitution of capitalism. Ideas instead never seriously factor into these accounts, if not as epiphenomena still ultimately determined by capitalism intended as a comprehensive structural constraint on the global scale. It is thus difficult to disagree with Van der Pijl when he maintains that 'the thrust of Wallerstein's analysis is materialist and deterministic' (2009: 178), in a way which resembles closely Bukharin's mechanistic materialism much criticised by Gramsci.

Starting from within this tradition, Robinson attempts to construct a bridge with the emerging neo-Gramscian scholarship. Thus, ideas are an important factor in his theorisation firstly of the promotion of polyarchy on the part of the US in Central America (1996), and then of the rise of global capitalism (2004). This is particularly evident in his reference to hegemony in order to account for the consensual aspects allowing the transnational capitalist class to take centre-stage in

⁷⁶ And even more, one might add, considering the call by Randall Germain to develop a non-Marxist historical materialism (2007). See also the reply by Adam Morton (2007b).

the global political economy. Yet, Robinson's use of ideas as explanatory tools is problematic in at least two respects. Firstly, with regard to relations with material factors, the ideational dimension of hegemony is largely read off from modifications in the class structure, and does not appear to feed back on such structure in any significant way. Secondly, with respect to the social function of ideas, this is limited to legitimising and whenever possible building consensus around the global accumulation strategy pursued by the emerging transnational historical bloc, defined in purely materialist terms (2004: 75-7). Whereas the *legitimation function* is certainly one of the main features of hegemony as identified by Gramsci, it is hardly the only one, and leaves the door open to changes of instrumentalism for the way ideas are employed, without allowing for any autonomous causative power or unintended social effect.

Similarly, within the works of the Amsterdam School, and particularly of Kees Van der Pijl (1998), ideas play a fundamental role in lending legitimacy to the interests of the dominant class, or fraction thereof, by portraying them as the general interest within the global political economy. Once again, however, this function of ideas is entirely dependent on material conditions, as Van der Pijl himself clarifies: 'the capacity of fractions of capital to appropriate a share of the total mass of profits shapes the sense of identity of a particular segment of collective capital with the momentary functioning of the system, short-circuiting the general interest with the special one' (1998: 58). Also when accounting for the role of the Mont Pelerin Society in the spread of neoliberalism, Van der Pijl denies any constitutive effect on the part of this intellectual organisation, and rather suggests that it became an important factor '[o]nly when the corporate liberal concept and the class configuration supporting it unravelled' (Ibid: 129).⁷⁷ Thus, also in this case identities and ideologies are derived from positions in the class structure, with very little autonomous influence or possibility of feeding back on the material structure.

If applied to the Egyptian case, both approaches above would thus support the following argument:

Material factors are the main driving force in the evolution of the Egyptian political economy.

⁷⁷ For an alternative view of the role of the Mont Pelerin Society in the rise of neoliberalism, see Harvey (2005: 19-22).

Even though also starting from Gramsci, scholars belonging to the Coxian school get to a conception of the relations between material conditions and ideas which is remarkably different from the one espoused by transnational historical materialists. As mentioned in Chapter 1, for Cox hegemony is configured as ‘a fit between power, institutions and ideas’ emerging from social processes (1981: 140-1). This emphasis on the social constitution of hegemony provides the basis for overcoming the functionalist understanding of hegemony, and thus ideas, typical of the Amsterdam school. Ideas are primarily conceived as *shared intersubjective meanings*. Whereas the construction of these meanings cannot be understood if not in terms of a social process, it is unclear how in Cox ideas are related to ‘the decisive nucleus of economic activity’. More importantly, as outlined by Worth (2011: 381), ideas are gradually untied from the social structure producing them, and in the form of hegemony they become an attribute of a state-led project, still deemed socially grounded but fundamentally independent from class relations. This ‘isolation’ of ideas is also visible in the separation posited with both power and institutions. Rather than constituting one another through a ‘philosophy of internal relations’ (Ollman 2003), these three elements are merely juxtaposed, eventually producing hegemony in a combinatory, rather than dialectical, way. Through this movement, ideas – while still ‘for someone and for some purpose’, much like theories – free themselves from the social relations from which they emerged.

A similar stance can be found also in constructivist IPE, even though posed in substantially different terms. Despite their neglect of class relations, the focus on social constructivism is warranted in that it allows to unveil a dimension of the causal power of ideas which has been neglected by most neo-Gramscian literature. Whereas in the approaches discussed above the role of ideas is largely limited to legitimacy- and consensus-building, social constructivists show the relevance of ideas as a key framing device, shaping the way we perceive reality, its problems, and our actions to tackle them, thus having very real consequences on material conditions. Much as with the Coxian school, the power of ideas is identified in the ability to socially construct a shared intersubjective understanding of material factors. As shown by Blyth in his discussion of the affirmation of neoliberal norms in the US and Sweden (2002), the construction of shared meanings is a deeply political process, where several alternative sets of ideas strive for relevance. In this struggle for meaning, a crucial role is played by *epistemic communities*, defined as ‘a

network of professionals with recognised expertise and competence in a particular domain and an authoritative claim to policy relevant knowledge within that domain or issue-area' (Haas 1992: 3). Epistemic communities, and in a similar way academic and professional networks, are able to define the boundaries of a specific policy-relevant debate by using their 'authoritative claim' to knowledge towards defining problems, identifying potential solutions, and assessing policy outcomes. This is particularly true with respect to economists and to the construction of the popular understanding of how economies work (MacKenzie et al. 2007).

This power in the hands of those possessing specialist expertise has some drawbacks, as these networks are more often than not subject to a cognitive bias, intended here as an adaptive behaviour disabling potential options on grounds of desirability. In the specific case of economic policy-making under examination here, this translates into reliance on cognitive shortcuts usually oriented by what Chwioroth calls 'hypothesis-confirming' bias (2010: 46). Particularly when the time for taking a decision is short, for example in the face of an economic crisis, processing all the information and options available is costly, and as a consequence experts tend to fall on received wisdom, thus discounting both theoretical arguments and empirical facts disconfirming their basic assumptions and the hypotheses derived thereof. This is why, in the eyes of constructivist scholars, times of crisis and uncertainty are fundamental in that they allow to establish what Peter Hall calls *policy paradigm*, whose main characteristic in this respect is that it is 'embedded in the very terminology through which policymakers communicate about their work, and it is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole' (1993: 279).

As Bieler and Morton point out (2008: 104), constructivist approaches provide a convincing account of how certain ideas might become embedded in the overall structure. However, they are much less convincing on the issue of why these ideas, and not others, made it into the very constitution of reality and of our understanding of it. The five reasons advanced by Finnemore and Sikkink to explain why ideas reach what they call 'tipping point' and become widely accepted on the international scale, do not address adequately this issue (1998: 906-9).⁷⁸ Conceiving

⁷⁸ These five factors are legitimacy, prominence, intrinsic characteristics of the norm, adjacency and world time. However, the position on each of these five dimensions cannot be assessed if not in relation to social relations themselves, thus to an aspect extrinsic to norms.

successful ideas such as sovereignty or in our specific case neoliberalism only in terms of inter-subjective consensus-based understanding is not enough, as one must also strive to 'identify broader social forces with antagonistic interests that drive political and geopolitical change in conflictual, often violent, domestic and international processes' (Teschke 2003: 31).

However, the value of constructivist approaches cannot be discounted entirely. To summarise the ideational argument in a nutshell,⁷⁹ following and broadening Wendt's trademark argument that 'anarchy is what states make of it' (1992), one could argue that neoliberalism itself is what social actors make of it. In brief:

Ideational factors are the main driving force in the evolution of the Egyptian political economy.

What can the Gramscian approach based on articulation offer in this respect? In the beginning of a note significantly subtitled 'Economic and ideology' (1971: 407, Q7§24), Gramsci recalled the example of Marx:

The claim, presented as an essential postulate of historical materialism, that every fluctuation of politics and ideology can be presented and expounded as an immediate expression of the structure, must be contested in theory as primitive infantilism, and combated in practice with the authentic testimony of Marx, the author of concrete political and historical works. Particularly important from this point of view are *The 18th Brumaire* and the writings on the Eastern Question, but also other writings (*Revolution and Counter-Revolution in Germany*, *The Civil War in France* and lesser works).

Thus, a focus on the historical writings of Marx would show a more fine-grained approach to the relation between material factors and ideas, as shown for example in the relevance given to the very idea of Caesarism in influencing domestic and foreign policy developments in France under Louis Napoleon. At the same time, Gramsci also warns against the risks of falling into the trap of discursivity. As put

⁷⁹ The term 'ideational' is not considered here as synonym with ideological. The former refers to the more general role of ideas in society, whereas ideology is to be considered as a more or less coherent system of ideas influencing one's goals, expectations and actions. Thus, the adjective 'ideational' encompasses what we consider 'ideological', but also includes non-systematised ideas.

by Stuart Hall (1997: 31, quoted in Bieler and Morton 2008): 'everything is within the discursive, but nothing is only discourse or only discursive'.

This means broadening the relevance of constructivist insights while at the same time anchoring them more firmly to social relations of production. This can be done through two theoretical moves. On the one hand, it is crucial to refer to the Gramscian concept of *organic intellectuals* to move beyond the undertheorisation of the social basis of epistemic communities. Organic intellectuals are opposed to traditional, and they indicate a group of 'intellectuals by social function' arising from a specific social group, with the task of clarifying and organising the interests and ideology of their social class, or fraction thereof (Gramsci 1971: 6, Q12§1; 330, Q11§12). Once elaborated into a relatively coherent cultural, political and economic programme, the ideology of the ruling class, or class fraction, becomes operative and produces substantive effects also on material conditions, for example in the form of policies adopted and implemented. In this way, the fundamental intuition of ideas also as framing devices with effects on material conditions is absorbed into the Gramscian framework developed here.

On the other hand, also the other concept borrowed from constructivism – policy paradigm, – can be reworked in Gramscian terms and related to *common sense*. The uncritical acceptance of received wisdom constitutes a first important link between these two concepts. In the notebooks, Gramsci points out that even in common sense, defined following the editors of the English translation as the more or less coherent set of generally held assumptions and beliefs common to any given society (1971: 323), there is a 'healthy nucleus, residing in 'overcoming the bestial and elemental passions through a conception of necessity which gives conscious direction to one's activity' (Ibid: 328, Q11§12). Hence, there is an aspect of common sense which is strikingly similar to that of policy paradigms: the ability to enhance the power of rational thinking within the parameters of its own existence. Yet, it is the duty of each researcher to keep in mind 'the historicity of any conception of the world' (Ibid: 324, Q11§12), and thus work towards understanding the limits of any given paradigm. Thus, on the other hand, it is important to understand for whom a given policy paradigm becomes common sense. This is particularly relevant in authoritarian contexts, where meaningful political action is usually restricted for few social groups. When a policy paradigm becomes common sense only the eyes of a section, however relevant, of society, it is then more appropriate to speak of

ideology, intended as a more or less coherent system of ideas influencing one's goals, expectations and actions. On the other hand, the analysis of the cognitive biases of academics, professionals and policy-makers promoting neoliberalism in Egypt is also extremely important because of its material consequences, as outlined by constructivists. Through this move, the emergence of neoliberalism as common sense within a section of the ruling bloc and thus as an ideology driving economic policymaking is traced back to class relations and the transformations they experience over time.

In this way the interaction between material and ideational factors can be conceptualised in a more dynamic form. The articulation among these is itself dynamic, and the increasing or decreasing autonomy of ideas – and their impact on materiality – is determined in the first instance by the opportunities and constraints provided by the material structure. In other words, within a given balance of class forces, a certain range of alternative ideational paths are possible, each with its own chances of succeeding depending on its suitability to existing class relations. With reference to the Egyptian case, ideas and ideology become relatively more autonomous from the material structure when: on the one hand, power reconfiguration on the national scale follows shifts in the class structure produced by the change of the accumulation regime; on the other hand, changes in class relations on the national scale produce a relative alignment with prevalent class relations on the international scale. In brief:

Change in the national relations of class forces is the main driving force in the evolution of the Egyptian political economy, as with relative alignment and power reconfiguration ideas become relatively more autonomous from material factors.

2.5. From theory to practice: evidence and methods

Before the empirical analysis moves on to the study of the three dimensions on which hegemony is constituted, reproduced and transformed, the essential assumption on which this study is based – i.e.: the shift in the Egyptian accumulation regime – ought to be established as a plausible one. This is the task of Chapter 3, which tracks down the modifications in the accumulation regime referring to the fourfold definition of neoliberalisation provided by Harvey and discussed earlier in this chapter. Thus, privatisation and withdrawal of state from the economy are analysed with reference to all the main facets of this process, from

the privatisation of all the forms of input in agriculture (thus: credit, crops, fertilisers), to the sale of state-owned enterprises (SOEs) in the manufacturing sector, to the divestiture of stakes in joint-venture banks and the privatisation of Bank of Alexandria, the smallest of the four public sector banks. Financialisation is measured looking at the substantially increased role of finance, visible in the consolidation of the banking sector and in the relaunch of the stock exchange.⁸⁰ The third aspect, labelled by Harvey 'management and manipulation of crises', is discussed by looking at the reactions of the Egyptian government to the fiscal crisis of the 1980s, and at the measures undertaken in order to turn a phase of serious economic distress into an opportunity to restructure economic relations in favour of the incumbent ruling bloc, and especially of the private capital faction within it. Lastly, the main cases of state redistributions in favour of the upper classes are also considered, for example with reference to land seizures in agriculture, to tax breaks in favour of both industrial and financial companies, to various measures implemented to favour large banks and their most affluent clients in the financial sector.

Once the assumption of the neoliberalisation of the Egyptian economy has been adequately supported, we can move to the transposition of the theories discussed in this chapter into empirical referents. This is done separately for each of the three dimensions analysed.

Economic-political. Modernisation theory, elite-centred accounts and the Gramscian approach based on articulation have rather different expectations on how economic reforms, and the deriving modifications in the accumulation regime, impact on the social structure. To see whether the expectation of modernisation theory of a stronger middle class holds, the distributional impact of reforms is analysed in its macro-effects, thus investigating how the main social groups in Egypt have been affected by reforms. On the other hand, the expectations of elite-centred approaches are scrutinised by looking at micro-effects, thus studying how reforms changed the balance of forces between the different components off the ruling bloc.

As the Gramscian argument looks at the reciprocal relations between class relations, accumulation and political regime, its assessment requires a more

⁸⁰ In this respect, it is important to always keep in mind that the Egyptian financial sector is still dominated by banks, rather than by the capital market and its actors (Beck et al. 1999).

complex 'experimental' apparatus. Whereas the research also refers to some quantitative indicators, particularly in tracking down the rise of the capitalist oligarchy, most of the empirical work relies on qualitative methods. More specifically, two potential channels – institutional and informal – by which changes in economic relations might have produced a reconfiguration of political power are identified. With respect to the former, reliance on secondary sources is combined with interviews carried out in Cairo during a four-month fieldwork from April to July 2010. The driving interest on this issue has been the attempt to uncover changes in the balance of power between different institutions and within them. The most important transformation in inter-institutional relations was the empowering of the Ministry of Finance *vis-à-vis* the Ministry of Planning that had been the heart of economic policy during the long *étatist* phase. On intra-institutional relations, great attention has been devoted to understand changes in the composition of the main political institutions – thus: the ruling National Democratic Party (NDP), parliament and government – with respect to the various components of Egyptian society, with particular emphasis on the rise of large private capitalists.

With respect to informal channels, I have tried to discern on the one hand how the previous relations of class forces impact, and to a good extent hybridised, neoliberal reforms. On the other hand, I have also focused on the practices of the rising capitalist oligarchy in order to translate its economic power into political power. These practices include the appropriation of state functions in the hands of private entrepreneurs still belonging to the wider ruling bloc, the increasing technocratisation of economic policy-making and the persistence of old patterns of opaque relations between banks and the larger business conglomerates. Also in this case, the use of secondary sources has been combined with first-hand accounts from researchers and journalists interviewed in Cairo.

By referring to these forms of empirical articulation of economic and political factors I aim to assess the plausibility of the three main claims advanced by the Gramscian approach. First, prior class relations determined in the first instance the way neoliberalism could be implemented in Egypt. Second, neoliberal reforms as a political project reshaped class relations themselves, thus showing the relative autonomy of the political. Third, changes in class relations led to a reorganisation of political power (thus, another form of determination in the first instance), whose

content is open-ended and decided by the struggle itself (another example of relative autonomy).

International-national. The decision to focus on institutions as reliable proxies of interscalar relations is based on two considerations. The first one, of a theoretical nature, has already been discussed above and refers to the role of institutions, both on the national and international scale, as forms of condensation of social relations from which specific accumulation strategies and hegemonic projects arise – in the national scale – and are promoted and diffused – in the international scale. The second consideration has more to do with the difficulties of empirical research, and more specifically with the very limited accessibility to material regarding the role of private capital beyond the aggregate data provided with respect to foreign direct investment (FDI).⁸¹

If the focus is on institutions, the dominance of international over national elements is to be assessed in the light of the relations between the Egyptian government, and the relevant ministries, and international organisations such as the IMF and the World Bank. In particular, documents produced on both sides, and the content of the actual policies adopted, are carefully scrutinised in order to understand the forms and patterns of institutional articulation across scales.

The empirical study is carried out on two more specific dimensions. On the one hand, I have attempted to grasp the quality of institutional relations, in order to understand whether there was cooperation (if yes, to what extent) or whether relations were mostly characterised by various forms of coercion on the part of international institutions or again in which cases confrontational stances were taken preventing reforms from being implemented altogether. Thus, inevitable reference to historical and analytical sources analysing these evolving relations is complemented with a more systematic study of the degree of correspondence between reforms suggested and reforms implemented with respect to both their content and timing.

On the other hand, institutional relations have also been evaluated with respect to who was leading and who was following in the reform process. In this case, attention was mostly focused on the positions taken by the Egyptian

⁸¹As mentioned in the introduction, in my specific case this difficulty was compounded by my very limited knowledge of Arabic.

government on specific issues on the table, including the full implementation of the new tenure law with respect to agriculture, the management and divestiture of SOEs in the manufacturing sector, and both exchange rate management and privatisation of public sector banks as far as finance is concerned. On each of these issues, empirical research has attempted to ascertain in which cases the government was mostly reactive to proposals coming from international organisations and donors, and in which circumstances instead the cabinet took the initiative in the reform process. To this effect, I have carried out several interviews with officials working for international institutions in Cairo,⁸² and the material emerging from these first-hand accounts has been contextualised in the light of the material provided by the two most important English-language outlets with respect to the Egyptian economy, namely: the reports drafted by the Economist Intelligence Unit (EIU) and news, dispatches and articles from the Middle East Economic Digest (MEED).

The focus on these two aspects is crucial to assess the two main insights provided by the Gramscian approach with respect to interscalar articulation. On the one hand, we should be in the position to evaluate whether the international scale determined in the first instance the possibilities for action on the national scale, effectively pushing the Egyptian government down the reform path. On the other hand, once the relative alignment in local class relations to those prevalent on the international scale is established, we should also see the national scale becoming relatively more autonomous with respect to timing but also increasingly content. The evaluation of these two dynamics should also provide enough material to discuss whether the transformations experienced by Egypt could be characterised as a passive revolution.

Material-ideational. On this dimension, the transposition of the conceptual apparatus into empirical referents takes place in three steps. Firstly, the most relevant Egyptian organic intellectuals with respect to economic policy-making are identified. This study focuses specifically on the work of two economic think tanks established in Egypt in the early 1990s: the Economic Research Forum (ERF) and the Egyptian Center for Economic Studies (ECES). The study of the publications produced by

⁸² More specifically: the World Bank, the Delegation of the European Union to Egypt and USAID.

these two research centres,⁸³ indispensable to grasp the penetration of neoclassical norms and neoliberal policies in Egypt, is preceded by an analysis of the genesis of these two think tanks, in order to get a sense of the power relations and interests embedded in them.

The second aspect to be evaluated is whether policies implemented were effectively influenced by neoliberal principles. I rely on the three different types of *policy change* defined by Hall with respect to what happens to three fundamental variables in the policy-making process: 'the overarching goals that guide policy in a particular field, the techniques or policy instruments used to attain those goals, and the precise setting of those instruments' (1993: 278). According to which elements change, we have first-order change if the setting of the instruments varies, but the instruments themselves and the overarching goals remain the same. We speak of second-order change when both instruments and their setting vary, but the main goals do not. Lastly, third-order change appears when goals, instruments and setting of instruments change. Despite this classification might evoke some incremental process of change, Hall is clear when he maintains that:

If first and second order changes preserve the continuities usually found in patterns of policy, third order change is often more of a disjunctive process associated with periodic discontinuities in policy. One striking implication of this analysis would be that first and second order changes in policy do not automatically lead to third order changes (1993: 279).

For this reason Hall suggests an analogy with scientific revolutions, and particularly with 'paradigm shifts'. Following his analogy, and to avoid the idea of incremental change implied by ordering policy change with cardinal numbers, I speak of *paradigm change* when dealing with change of the overarching goals of a policy.

In empirical terms, policy change is evaluated with reference to what are arguably the most relevant reform bills in the three sectors under consideration. Thus, I focus on the implications of Law 96 of 1992 (the new tenancy law) with respect to agriculture, of Law 203 of 1991 (reorganising public sector companies and

⁸³ Particular emphasis was placed on their working papers series, providing the most advanced aspect of their research activity. Interviews with Hanaa Kheir-el-Din, ECES's former director, Cairo, 4 May 2010, and Ahmed Galal, ERF's former director, Cairo, 6 May 2010.

mandating their privatisation) in industry, and of Law 88 of 2003 (new central banking law) in finance. The question asked is whether these bills provide a paradigm change in policy-making in their respective sectors, or whether it amount to some form of first- or second-order change.

Thirdly, the power of ideas is also studied with reference to the internalisation of two fundamental *neoliberal norms* and the cognitive biases deriving thereof. The first norm concerns the consideration of the private sector as inherently more efficient than the public sector in terms of welfare maximisation. Such an argument rests on the neoclassical assumption that sees markets as characterised by perfect competition and full availability of information to all the actors involved, and further defines actors as fully rational and able to process all the pieces of information provided by the market. Within this setting, public actors' choices are always necessarily distorted by extra-economic priorities, whereas this does not happen for private actors. Driven exclusively by self-interests, the latter are better suited to achieve welfare-maximising outcomes. For this reason it is economically rational to allow national economies to be dominated by the private sector.

The second norm concerns the preference for capital account liberalisation over restrictions to capital flows. As eminently put by Chwieroth (2010: 44-7), theoretical arguments for and against capital freedom are equally powerful, and equally supported by economic theories, and the preference of each economist largely depends on the economic doctrine he/she subscribes to.⁸⁴ Similarly to what happens with the first norm, the controversy revolves around the issues of information availability and behaviour on the part of market actors. In brief, supporters of financial liberalisation assume that perfect information is used efficiently by market actors, whereas proponents of capital controls maintain that market actors take their decisions according to conventions in an environment characterised by imperfect information.

The internalisation of these norms has been assessed with reference to the scientific production on the part of ERF and ECES, which has required the construction of a database of all the working papers published until 2010 and the

⁸⁴ This was witnessed in the late 1990s by an independent evaluation carried out by the IMF surveillance system, which argued that within the Fund the opposition to capital controls 'was based more on ideology than on a careful consideration of the evidence and the policy alternatives' (IMF 1999: 39).

evaluation of their theoretical foundations.⁸⁵ The cognitive biases deriving from embracing these two neoliberal norms are then evaluated both through interviews with policy-makers, academics and representatives of the private sector and, with reference to the norm of capital freedom, through a survey conducted among the members of the Basel II task force within the Central Bank of Egypt (CBE).⁸⁶

2.6. Conclusion

The three instances of the relation between structure and superstructure on which hegemony develops mentioned in Chapter 1 have been discussed at length in this chapter. I have thus left hegemony itself in the background in order to focus on the interactive dimensions from which it emerges, and namely: the economic and the political, the international and the national, the material and the ideational. This step was considered necessary in order to avoid the risk of assuming hegemony rather than understanding its social construction, reproduction and transformation. In this way, the articulation approach hopefully provides the instruments to understand cases in which the role of hegemony is limited, its constitution incomplete, imperfect or unravelling, and ideally also cases where hegemony is absent altogether.

The method of articulation has thus been deployed on all the three dimensions, leading to a differentiated yet coherent understanding of how hegemony comes about. The key mechanisms driving articulation have been argued to be the same on all the dimensions considered. The economic, the international and the material all have a significant shaping power, best encapsulated in the concept of determination in the first instance, somewhat defining what Braudel called 'the limits of the possible'. At the same time, the element whose boundaries were established – respectively, the political, the national, and the ideational – might be characterised as the places where various forms of agency strive for relevance. While determined in the first instance, all these aspects maintain the chance of exerting a relative autonomy, feeding back in various forms on the economic, the international and the material, and eventually reshaping those very limits of the

⁸⁵ I have referred to a qualitative analysis software – Atlas.ti – to evaluate most of the working papers, whereas I have evaluated personally all the finance-related papers. See Appendix.

⁸⁶ This task force is in charge of developing the tools for implementing a banking sector regulatory system compliant with the Basel II Agreement.

possible. The key for evaluating the extent of this relevant autonomy has been identified in pre-existing class relations and the modifications they went through. More specifically: firstly, on the articulation of the economic and the political, changes in class relations produced by the first wave of reforms ‘forced’ a reconfiguration of political power, but its content was shaped by political struggle itself; secondly, on interscalar articulation, the first wave of reforms produced a relative alignment of the Egyptian class structure to that prevalent on the international scale providing the conditions for a second, endogenous, wave of reforms; thirdly, on the articulation of material and ideational factors, changes in class relations deriving from the first wave of reforms provided the conditions for the rise of neoliberalism as the ideology of the emerging capitalist elite. I believe that such a differentiated understanding provides a much more dynamic, yet still structurally grounded, account of the relation between structure and superstructure, much as Gramsci himself intended with his metaphor of the historical bloc.

It is now possible also to see the distinctiveness of the approach developed here *vis-à-vis* existing neo-Gramscian approaches with respect to the Egyptian case study. With respect to the economic-political dimension, the dualism between state-centrism and class-centrism is abandoned in favour of an approach that, whilst appreciating the power of structural change, also acknowledges that political dynamics are irreducible to it and to a significant extent feed back on these very structures, providing the conditions for the emergence of a very peculiar combination of regimes which I term neoliberal authoritarianism. With respect to interscalar relations, the tendency on the part of both the Coxian and the Amsterdam schools to see the state as increasingly transnationalised, or as plainly irrelevant in the case of peripheral countries, is corrected in favour of an understanding of the state as the core of a nodal scale operating a passive revolution which it at once adaptation to the global imperatives of capital accumulation and domestication of some of its potential effects. Lastly, with reference to the relation between material and ideational factors, the performative role of neoliberalism as an ideology is taken beyond the functionalist interpretation of the Amsterdam school, but contrary to what happens with Coxian studies is still tied to social relations of production, even though relatively autonomous from it.

Before comparing these approaches in the light of the material emerging from fieldwork in Egypt, it is necessary to focus on the evolution of the Egyptian political

economy, and to establish that our working assumption of an ongoing neoliberalisation of the Egyptian economy holds to careful scrutiny. This is the task of Chapter 3, which also provides the chance to fine-tune some of the theoretical aspects treated in these first two chapters.

Chapter 3

MOVING AWAY FROM THE ETATIST PARADIGM?

THE NEOLIBERALISATION OF THE EGYPTIAN ECONOMY

3.1. Introduction

The previous chapter located the contributions of the Gramscian approach presented here in the relevant debates in critical IPE. Discussing the three dimensions along which hegemonies articulate, the main concepts forming the analytical toolkit of this study have been outlined. One more step is needed before the value of the conceptual apparatus is evaluated in the face of empirical material. This step requires establishing beyond any reasonable doubt that what the Egyptian economy experienced over the past two decades is best configured as a process of neoliberalisation. Thus, the main task of this chapter is to identify the instances of this process between 1991 and 2010 and their relevance with respect to the transformation of the accumulation regime and of class relations.

Establishing the presence of the four politico-economic processes identified by Harvey as constitutive of neoliberalisation is a *conditio sine qua non* before proceeding with the empirical part. Some influential scholars, particularly Middle East specialists, still need to be convinced on this fundamental issue. In fact, there is a rather substantial literature supporting the view that what Egypt went through is more the derailment of the reform project, rather than its implementation and the following transformation of the national economy (Hinnebusch 2001; Kienle 2001 and 2003; Schlumberger 2004 and 2008; Wurzel 2009). I believe that coming to terms with their position, and convincing the sceptics about the plausibility of the view expressed here, is indispensable before moving to the empirical part.

In its essential terms, this chapter argues that over the past twenty years the Egyptian political economy experienced a dramatic shift from an *étatist* towards a neoliberal regime of capital accumulation. Whereas this process of neoliberalisation was far from completed, its effects on the Egyptian political economy were clearly visible. In order to show this, the first section outlines the evolution of the Egyptian political economy since the Free Officers coup in 1952, suggesting that despite the

to-and-fro in economic policies the Egyptian accumulation regime in 1990 was still better interpreted under the rubric of *étatisme*. The following section reviews the impact of the IMF-promoted ERSAP firstly with respect to macroeconomic stabilisation, and then with reference to privatisations and liberalisations. The last section focuses on the specific sectors analysed in this study and suggests that the Egyptian economy has been substantially neoliberalised with reference to all the four aspects outlined by Harvey: privatisation, financialisation, management and manipulation of crises, state redistributions in favour of the upper classes. By the end of the chapter, the doubts regarding the appropriateness of neoliberalism as a way of defining the Egyptian regime of capital accumulation will hopefully be dispelled.

3.2. Egyptian vagaries in brief, 1952-1990

Despite having achieved formal political independence after World War I, it is only with the 1952 revolution ushered in by the Free Officers coup that Egypt gained control over its own economic policy (Hussein 1973: 20-4). However, during their first years in power the Free Officers 'had no action programme that would have provided some conception of the society their revolution aimed at creating' (Baker 1978: 101). This was all the more true with respect to economic policy, where the determination to let the state play a central role in the modernisation process was the only clear aspect in the eyes of these army officers suddenly turned into policy-makers (Wahba 1994: 49-50; Ayubi 1995: 107-8). By 1990, the centrality of the state, and particularly of the oversized public sector, in national development was still one of the main characteristics of the Egyptian political economy, in spite of the ostensible turnaround experienced by its policies, ranging from foreign relations to economic development.

This section discusses the evolution in the Egyptian economic policy, and in its political economy, from the ousting of King Farouk in July 1952 to the beginning of negotiations with the IMF and the World Bank that led to ERSAP. This means focusing first on the political economy of Nasserism and then on *infitah* and its political and economic repercussions. The picture emerging from this retrospective is one highlighting the tensions and inconsistencies characterising both projects. Three aspects can be said to characterise the Egyptian political economy in 1990. Firstly, an economy structurally dependent on the developed world. Secondly, in

contrast with most peripheral countries, an economy largely controlled by Egyptian nationals, with private foreign capital playing a remarkably minor role. Thirdly, a political economy that despite the evolutions experienced during the first four decades as a republic was still better understood referring to the *étatist* paradigm.

3.2.1. *The doomed route to Arab socialism, 1952-1973*

In 1952, the Free Officers took over a country where the share of the economy in the hands of the private sector was significantly higher than in most neighbouring states. Mead estimates that when the king was dethroned the public sector accounted for only about 13 per cent of GDP (1967: 272-3). The economic weakness of the public sector suggested that the fundamental changes advocated had to be pursued through collaboration with private actors. Indeed, the period from 1952 and 1956 could be characterised as a phase of 'public-private partnership', where the newly established regime relied on capitals provided by the established business sector in order to modernise and industrialise the country (El Kammash 1968: 282; Bush 1999: 11). The push towards industrialisation was the main point of contact between military officers and local businessmen, confirming the hegemonic role acquired by economic nationalism as the main driver of industrialisation already since the 1920s (Wahba 1994: 37-43; Vitalis 1995: 47-9).⁸⁷ The symbol of this phase – Law 178 of 1952, commonly known as the Land Reform – despite focusing on agriculture was itself geared towards speeding up the process of industrialisation, particularly in its intention to transfer agricultural surpluses away from the countryside towards financing urban growth (Bush 1999: 11).

Already in 1956, Nasser's dissatisfaction with the private sector and conversely businessmen's worries about the constant policing of their activities on the part of the security apparatus showed that the state-business partnership could not work for much longer. The successful conclusion of the Suez crisis had the twin effect of raising Nasser's status to that of a demigod and of unifying the Egyptian masses against the interference of former colonial powers. This situation provided a must-take window of opportunity, leading the regime to step heavily into the economic arena, with a series of measures ranging from the sequestration of French

⁸⁷ In a study on the birth of economic nationalism in the Egyptian elites that will lead in the 1920s to the 'Egyptianisation' movement, EzzelArab maintains that the roots of economic nationalism in Egypt should be traced back to the end of the 1870s (2002: 3).

and British assets, to the nationalisation of foreign banks and the introduction of five-year plans to guide economic development (Tignor 1998: 114-42). This was the phase that Bush labels 'directed capitalism' (1999: 13), lasting approximately until 1961. The widespread support generated in the rest of the Arab world by the Suez crisis also provided Nasser with the chance of spreading in the region what he called the Egyptian 'social revolution'. The union with Syria and the creation of the United Arab Republic were meant to be the first steps towards extending Nasser's hegemonic project to the whole region. However, the Pan-Arab project was to prove short-lived, as the non-accession of Iraq after the Ba'athist revolution, the Syrian secession in 1961 and the disastrous involvement in the Yemeni civil war gave three heavy blows to Nasser's regional ambitions, putting them to rest (Baker 1978: 63).

The Syrian secession itself was the reaction to a new wave of nationalisations amounting to what is called the 'socialist revolution' and signalling the beginning of the third and last phase of Nasserism, that of 'state capitalism' (Cooper 1982: 18). In February 1960 the two largest national banks – Banque Misr and the National Bank of Egypt – were nationalised entirely, showing a qualitative change in the process of state intervention in the economy, as this was the first case of nationalisations concerning companies owned by Egyptian nationals (Ikram 2006: 6). By the end of 1961, most large and medium-sized industrial and financial enterprises had been nationalised, with the state substantially increasing its role in production as well as establishing an extensive system of price and cost controls. At the same time, there was a significant broadening of welfare provisions, with measures ranging from urban rent control to free health care and education. Even though one would have to wait 1973 to see *infitah* and thus a significant change in the relation between state, private actors and economic development, the end of the phase of state capitalism is usually found in the devastating defeat in the Six Day War (Bush 1999: 13-5).

The first decade of Nasserite policies (1955-65) provided Egypt with a impressive growth rate, averaging about 7 per cent a year, before slowing down to about 3 per cent a year in the following decade (Ikram 2006: 85-8). Growth was accompanied by the development of welfare measures well beyond regional standards. However, as common to most countries pursuing import-substitution industrialisation (ISI), these improvements in macroeconomic indicators came at the price of a staggering growth in the stock of external debt. The twin commitment to both growth and equality meant that heavy importing and borrowing forced both

the balance of trade and the balance of payments to suffer substantial deficits (Amin 1995: 2-5; Ikram 2006: 117-23). When in swift succession both the Soviet Union and the United States backed out of this dysfunctional pattern,⁸⁸ the unsustainability of this situation became apparent.

Regardless of its eventual failure, the Nasserite project produced significant modifications on all the three instances of the relation between structure and superstructure analysed by this thesis. With respect to the relation between economic and political factors, the aggressive policies adopted were aimed at changing the very structure of the economy, and were able to do so, even though with some negative consequences, both economic and political. The partnership between state and business towards industrialisation was accompanied by an overt war to landlords, best exemplified by the Land Reform (Baker 1978: 200-1; Bush 1999: 10-4), and to the merchant class closely linked to foreign capital (Soliman 1998: 10-2). Over time, as we mentioned, local capital became unreliable in the eyes of the army, leading to the nationalisation of Egyptian-controlled companies. Thus, the policies adopted were from the outset designed to produce a shift in relations between class forces, and were remarkably successful in doing so, disempowering landlords and merchants and improving, albeit only marginally, the position of both peasants and industrial workers (Abdel-Fadil 1975: 89-94; Bush 2002: 8-11). However, the most relevant change in class relations was the rise of what has been elsewhere defined as a 'state bourgeoisie' (Zaalouk 1989: 30) or a 'state class' (Ayubi 1995: 14), formed by a military and a bureaucratic wing. These shifts in class relations were mirrored in the consolidation of an *étatist* accumulation regime, with the state extending its reach from planning and coordination towards the absorption of managerial and productive functions. As modifications took place in the structure, the composition of the ruling bloc also changed, with the emergence of an authoritarian regime heavily dominated by the two wings of the public sector.

With respect to scale, Nasser's aim became over time to end the structural dependence of the Egyptian economy by putting it in the hands of Egyptian nationals. This led the regime to expel foreign private capital after Suez and to replace it first with private and then with public capital. Thus, there was a clear

⁸⁸ In 1964, the Soviet Union refused to postpone the repayment of part of the loan disbursed for the construction of the Aswan High Dam. One year later, the United States abrogated the delivery of wheat under the 'Food for Peace' programme (Bush 1999: 20).

change in the control of the economy, which effectively went into the hands of Egyptian nationals. However, this and the ISI strategy pursued proved insufficient to reach the ultimate end of breaking structural dependence. In other words, the constraints set by the international scale, constituting the Egyptian economy as structurally dependent, provided the initial boundaries within which change on the national scale could take place. A similar form of determination in the first instance by the international could also be seen in the political sphere, with the Cold War setting up the constraints within which Egypt – emerging as one of the leaders of the Non-Aligned Movement – could pursue its national experiment. In turn, this proved to have significant reverberations also on the international scale, for example in providing Egypt with a positional rent from its leadership of what was perceived as a third emerging bloc (Mohamed Mahmoud 2009: 35).

Lastly, with respect to the relation between material factors and ideas, the material conditions of exploitation and dependence provided a fertile ground for economic nationalism as an ideology to prosper well before the Free Officers coup, particularly among local elites (EzzelArab 2002). With economic nationalism already dominating as an ideational paradigm, the field of contestation within the ruling bloc was limited to the dominant form of ownership in the economy, i.e.: private or public. The acceleration of the industrialisation process inspired by economic nationalism led to a change in material conditions, particularly in terms of welfare provision, which reinforced the dominance of the nationalist discourse, and was at the same time instrumental in the resolution of the private vs. public dilemma in favour of the latter (Wahba 1994: 85-6).

3.2.2. *Opening the door, but not quite, 1973-1990*

Since the beginning of his presidency, Sadat had been constrained significantly both internally and externally. On the national scale, Nasser's death was expected to unleash a power struggle between the different factions he had been able to keep in check (Baker 1978: 86-7). On the international scale, Egypt's positional rent deriving from its leadership of the Non-Aligned Movement was rapidly dissolving due to superpower *détente*, compounding the ever more impelling debt problem (Mohamed Mahmoud 2009: 56). In this respect, it is not misleading to consider the October War as Sadat's Suez, as it boosted his status at home allowing him to pursue a bolder path than would have otherwise been the case.

The *infitah* (opening) policy found its official elaboration in the *October Paper* of 1974. This made the case for a major redirection of policies in both the economic and political spheres, based on the consideration that the October War put Egypt in front of its next challenge, defined as a ‘construction battle’, whose main aim was the modernisation of the country by 2000. The rationale behind *infitah* was remarkably straightforward: acquiring access to hitherto inaccessible Western technology, attracting the emerging glut of Arab petrodollars, and employing the Egyptian workforce both at home and in the Gulf countries, thus increasing consumption and raising additional revenues through remittances (Cooper 1982: 91).

The content of *infitah* was twofold, as economic liberalisation was conceived as linked to a parallel process of political opening. On the first front, Law 43 of 1974 (Law for Arab and Foreign Investments and Free Zones) signalled the effective launch of this new course. Through the creation of tax-free zones, the establishment of much greater foreign exchange freedom also for companies operating outside of the free zones,⁸⁹ and the provision of explicit protection for new investors,⁹⁰ the regime aimed at creating an economic environment conducive to greater private investment. On the second front, the new season started with the liberation of political prisoners and culminated in the movement away from the one-party system of the Nasser era towards a form of controlled pluralism, with a five-party system where competition was still substantially limited (Waterbury 1983: 366-84). This was a period of lively exchange of ideas, with the right-wing Liberal Party on the one hand advocating more and more liberalising reforms, and on the left the National Progressive Unionist Grouping defending the multi-party system yet warning against the dismantlement of the public sector that *infitah* policies might have entailed. Sadat and his Egypt’s Party sat rather comfortably in the middle.⁹¹ A repositioning on the Cold War chessboard was the final element of *infitah*, with the Camp David agreement and the following normalisation of relations with Israel being the seal on Egypt’s new international position.

The results of *infitah* were mixed to say the least. Despite swift approval of a significant number of projects, only a handful of them were effectively carried out.

⁸⁹ Those operating in the free zone were exempted from any foreign exchange control.

⁹⁰ Art. 7 of Law 43 says: ‘Projects may not be nationalised or expropriated, nor may invested capital be confiscated, seized or sequestered except through lawful processes’ (quoted in Baker 1978: 145).

⁹¹ In 1978 the president’s party was renamed National Democratic Party (NDP).

Most importantly, they tended to focus on sectors, such as tourism, construction and housing, with a limited long-term developmental impact (Baker 1978: 145). At the same time, the small share of domestic private capital that had survived nationalisations by retrenching in labour-intensive and low value-added sectors such as textiles and foodstuffs proved unwilling to move towards other sectors (Wahba 1994: 166). More worryingly, the open door policy was not successful in attracting Western and Arab capitals, with the partial exception of international oil companies and banks. On the positive side, the lack of foreign investment was compensated by the increase in foreign aid, fundamental in explaining the emergence of a mass consumption society, considered by many the hallmark of Sadat's presidency (Amin 1995: 11-2; Shechter 2008). This allowed on the one hand the fastest economic growth in the history of republican Egypt in the period between 1975 and 1985, at the average rate of 8 per cent a year, but at the same time meant that it was also a 'jobless growth', mostly based on various forms of rent (Radwan 1998: 16). On the other hand, being growth mostly debt-financed, the Egyptian balance of payments was in ever greater troubles, forcing negotiations with the IMF that would provide loans in exchange for measures including the removal of subsidies on basic foodstuffs. Sadat's decision to follow this route found widespread popular opposition. For the first time since Nasser's death, the demonstrations mobilised an entire country. This time the lower classes were not taking it to the street in mourning, but rather to express their grievances. As a consequence, the government backtracked and kept subsidies in place, with a decision taken by some to symbolise the end of *infitah*. Yet, this is probably better seen only as a temporary halt, as the opening process moved on, albeit very gradually and in a piecemeal way (Ayubi 1995: 346; Amin 1999: 45).

If it is true that Sadat's 'gamble on the future' was short-lived, it nonetheless spurred fundamental transformations on all the three dimensions taken into consideration by this study. With respect to the relation between the economic and the political, *infitah* policies revived the old liberal bourgeoisie sidelined by Nasser while at the same time leading to the creation of a new business class. However, both these groups heavily relied on the state for their survival, fitting into the category of crony capitalists (Sadowski 1991: 138-40; Bush 1999: 88-9). Seemingly in contradiction with this trend, the *infitah* also produced a significant expansion of the public sector, which continued well into the 1980s (Ayubi 1995: 298-300). The

limited growth of the private sector led to a phenomenal increase in informal labour (Oweiss 1990; Rizk 1991), which effectively became the 'employer of last resort' in a system where job creation was unable to keep up with the growing workforce. The economic regime also changed, with an ever-increasing reliance on rent.⁹² With respect to the political regime, the glaring rigging of the 1979 parliamentary elections in favour of the president's party led to a wave of dissent that, together with the resurgence of the Muslim Brotherhood, led the regime to abandon the reform track, with political deliberalisation swiftly sweeping in. Also in this case, the economic structure set the conditions within which political action could take place, in the form of *infitah*. As it had happened with Nasserism, the policies adopted did feed back on the economic structure, leading to a shift in class relations and to the insertion of private elements within an accumulation regime still undoubtedly falling into the *étatist* camp. Shifting class relations also had an impact on the composition of the ruling bloc, with both the remnants of the old liberal bourgeoisie and the ranks of the emerging *infitah* class playing second fiddle to the still dominant public sector (Ayubi 1995: 351-2).

With regard to the relations between international and national scale, two changes in international conditions provided Egypt with a chance to reposition itself abroad and to pursue different policies at home. Firstly, the already mentioned *détente* forced the Egyptian government to shift its allegiance, as it rapidly eroded the positional rent enjoyed through the leadership of the Non-Aligned Movement. Secondly, the stagflation of the 1970s and the rise of neoliberalism in the economies of the core in the early 1980s led to a change in the capital accumulation regime prevalent on the international scale, pushing Egypt to restructure its economy. The *infitah* however did not lead to any contestation of the condition of dependency, which was indeed aggravated by increased reliance on foreign aid.⁹³ The relative autonomy of the national scale can be seen in that, despite the ever-more pervasive pressures towards the liberalisation of capital flows, by the end of the 1980s the economy was still largely dominated by locals, as foreigners gaining access to the

⁹² Five forms of rent were particularly relevant: oil exports, Suez Canal earnings, remittances, tourism receipts and the already mentioned external assistance.

⁹³ To put it in the terms of Zaalouk, if Nasser failed in delivering development through de-linking, Sadat's route was not even able to allow Egypt to follow what Cardoso calls a process of 'associated dependent development' (1989: 159)

Egyptian market did so as minority partners in joint ventures, thus playing only a marginal role in the development of the Egyptian economy (Waterbury 1983: 200-1).

Lastly, on the relation between material factors and ideas, the pressures built by the ineffectiveness of the Nasserite strategy led to a reorganisation of the discourse about economic policy, with the decoupling of the welfarist and developmental functions, up until them both controlled and administered by the state (Ayubi 1995: 340-1). A strong emphasis on the virtues of liberalism in both its political and economic meaning followed swiftly, in the attempt to reorganise the discourse around the ability of the private sector to provide better than the state and its agencies for economic growth and job creation. The limits of this approach were to become apparent soon, and have been analysed at length elsewhere (Zaalouk 1989; Ayubi 1991). On the one hand, the lack of success of the new discourse was certainly instrumental in producing the gradual demobilisation and growing apathy which characterised the Egyptian society at the end of the 1980s (Ayubi 1995: 197-8). On the other hand, it also fed back on the material structure, by providing the ideological foundations for the emergence of a mass consumer society.

3.2.3. *Change and continuity in the Egyptian political economy*

By the end of the 1980s, the Egyptian political economy was characterised by three elements. Firstly, during the whole period between 1952 and 1990 the Egyptian economy was a structurally dependent one. The forms of its dependency might have changed over time - from socialist to capitalist, as Waterbury put it (1983: 391-405) - but its essence was altered neither by Nasser's nationalisations nor by Sadat's joint ventures. However, it is possible to argue that this structural condition worsened under Sadat's presidency. With *infitah*, the decision to forsake the developmental function keeping the welfarist one had crucially damaging consequences, as the rise in consumption came together with the maintenance of social programmes, crucial to regime legitimation, leading the state to over-borrow and eventually to build up an unmanageable stock of debt.

Secondly, ever since the sequestrations and nationalisations following the Suez crisis, activities in the Egyptian economy have largely been controlled by locals, be they public sector managers or the *infitah* bourgeoisie. This aspect is of particular relevance as it separates Egypt from most other peripheral countries, characterised as they were by the domination of foreign capital (Cardoso 1979). At the same time,

the dominant position of Egyptian capital in the economy should also make the Egyptian economy more resilient to pressures towards neoliberalisation, as none of the partners in the state-business alliance produced by *infatih* had much to gain from a more open economic system.

Lastly, despite the *infatih* itself, and the elements of opening in the Egyptian economy, it would be unreasonable to think of the Egyptian economy as a liberalised one. At best we could talk of a shift within the *étatist* paradigm, with the state surrendering only part of its functions with respect to production and management, and doing so resorting to strategies such as contracting out services and activities, that is: allowing private entrepreneurs to manage state-owned assets in return of a fee (Ayubi 1995: 333). In sum, the public sector not only preserved its dominant role with respect to incentive-setting, planning and coordination, but was also able to retain a major role in management and production, and even more so in sectors deemed strategic such as steel production and the energy industry. By 1990, the total capital of all private companies amounted to less than 10 per cent of the book value of the state sector (Ibid: 349).

These three aspects could be seen as a set of asymmetrical relations interacting with each other. The first element placed the Egyptian economy in a dependent position with respect to the core of the capitalist system. The second sees foreign capital in a subordinate position with respect to local capital, both public and private, somewhat weakening the pressures coming from the core towards a thorough change in the accumulation regime. Lastly, in the relation between public and private sector, the latter was in a subordinate position, being better conceived as a 'junior partner' in the ruling coalition, as Ayubi put it (1995: 352). Hence, also in this case the demands towards a change in the regime of capital accumulation should be weakened further, or at least will not be raised with consistency and credibility by a private sector that is too small in size to have any real leverage on major policies and lacks any measure of substantial autonomy from the public sector.

Thus, despite the spread of neoliberalism in the developing world since the mid-1980s, by 1990 none of the elements included in our definition of neoliberalisation discussed in Section 2.2.3 had happened in Egypt to an extent which could make think of a shift in the accumulation regime. *Étatism* seemed as entrenched as ever, veering away from socialist developmental dreams towards a

more classical rentier economy (Soliman 2011: 22-3). At the same time, the existing conditions – and particularly the largely domestic control of the economy under public sector dominance – seemed to conjure against a neoliberal turn.

3.3. A success story? Stabilisation and adjustment

Whereas it probably did not provide the sea change often described in the IMF and World Bank publications, the implementation of ERSAP was a fundamental moment in the evolution of the Egyptian political economy, and ought to be analysed at least for two reasons. Firstly, because this is the point where the narrative of Egypt as a successfully reformed economy starts, with the country turned in less than one decade from ‘one of the slowest train wrecks in history’ (quoted in Ikram 2006: 59) into ‘the Tiger on the Nile’ (Soliman 2011: 45). Thus, it is important to understand what happened in this phase, and why both international agencies and the Egyptian government were so upbeat about both the type of reforms undertaken and their likely outcomes. Secondly, I maintain that ERSAP did the groundwork for the thorough neoliberalisation of the Egyptian economy, firstly by framing the whole debate on economic reforms around the stark dichotomy between state and market, between inefficient public and efficient private sector, and then by supporting an encompassing programme of liberalisations and privatisations.

This section looks first at the process of macroeconomic stabilisation, carried out between 1991 and 1996, and at the praise that the Egyptian government received from IFIs, before outlining what are the problems with this mainstream narrative. It then looks at structural adjustment policies, with a specific focus on privatisation and liberalisation of both trade and capital movements.

3.3.1. *‘The reckoning’ and macroeconomic stabilisation*

The dominant position of the state in the Egyptian economy in the late 1980s can hardly be overstated. In much the same way, the troubles in which the Egyptian economy was in that specific conjuncture can hardly be overestimated themselves. By the mid-1980s, the chronic indebtedness was worsened by a sharp drop in oil prices, forcing the Egyptian government to enter into negotiations with the IMF and sign a stabilisation package authorising purchases for up to SDR250 million (Abdel-Khalek 2001: 25). As had already happened with previous agreements with the IMF,

the commitment on the part of the Egyptian government faltered as soon as the situation changed. In this specific case, there was both good and bad news. On the positive side, the new increase in oil prices took some pressure off. On the negative side, the adverse distributional impact of stabilisation measures led the government to launch compensatory measures such as a 20 per cent increase in wages for both public and private sector workers, triggering an inflationary spiral that brought the Egyptian economy in an even worse position by the beginning of the 1990s (Ibid: 30).

The 1987 crisis is important for two reasons. Firstly, it represents the first attempt on the part of the IMF to push on Egypt a set of reforms that since the mid-1980s had been promoted actively in most developing countries facing balance of payments crises. Secondly, despite the inconsistent commitment to reform, this was a phase of 'reckoning' for the policy-making circles surrounding the president (Amin 1995: 16), leading to the conclusion that tackling such a long-term crisis would have required abandoning the tactics of 'dilatatory reform' (Richards 1991) towards a broader restructuring of the Egyptian economy. It is not a case that the team negotiating ERSAP was by far the most knowledgeable and better supported team that Egypt had ever sent to the IMF (Ikram 2006: 61).⁹⁴

The conditions attached to ERSAP were heavily influenced by the Washington Consensus, codified by Williamson as a decalogue implicitly developed in the IMF-World Bank-Treasury complex and promoted in the world as a blueprint for economic development.⁹⁵ In particular, the stabilisation measures required followed very closely the first five objectives listed in Table 3.1. More specifically, fiscal discipline, and particularly the reduction of the ever-worsening budget deficit, was at the very core of the whole stabilisation package. To meet the stringent fiscal targets, the government was for the first time forced to cut significantly public expenditure, something it had always been very reluctant to do, reminiscent of the 1977 bread riots. Even though a comprehensive tax reform proved unfeasible,

⁹⁴ The team was composed by Kemal Ganzouri, Atef Ebeid, Mohamed Ahmed El Razaz, Salah Ahmed and Youssef Boutros Ghali. The first two would both serve as prime ministers in the following years. Ganzouri also happens to be the prime minister at the time of writing, appointed in November 2011 by a military junta increasingly under pressure. Boutros Ghali has served as minister of several economic departments between 1993 and 2011. He will come back in the following chapters.

⁹⁵ A further incentive to meet ERSAP conditions was that the promise by Paris Club countries to forgive part of the outstanding debt and to restructure the remaining parts was conditional to the Egyptian government meeting the targets set by ERSAP (Ikram 2006: 61).

incremental changes in the tax system provided a broadening of the tax base and the imposition of regressive taxes such as the General Sales Tax (Soliman 2011: 109-13). This was compounded by several changes in monetary policy, with the removal of ceilings, the full-fledged liberalisation of interest rates and the unification of the exchange rate for the Egyptian pound (LE) at the level of the most devalued rate.

Table 3.1 - Washington Consensus

1. Fiscal discipline
2. Redirection of public expenditure away from generalised subsidies and towards education and health
3. Tax reform (lower marginal tax rate and broadened tax base)
4. Interest rates liberalisation
5. Competitive exchange rates
6. Trade liberalisation
7. Liberalisation of inflow of FDI
8. Privatisation
9. Deregulation
10. Secure property rights

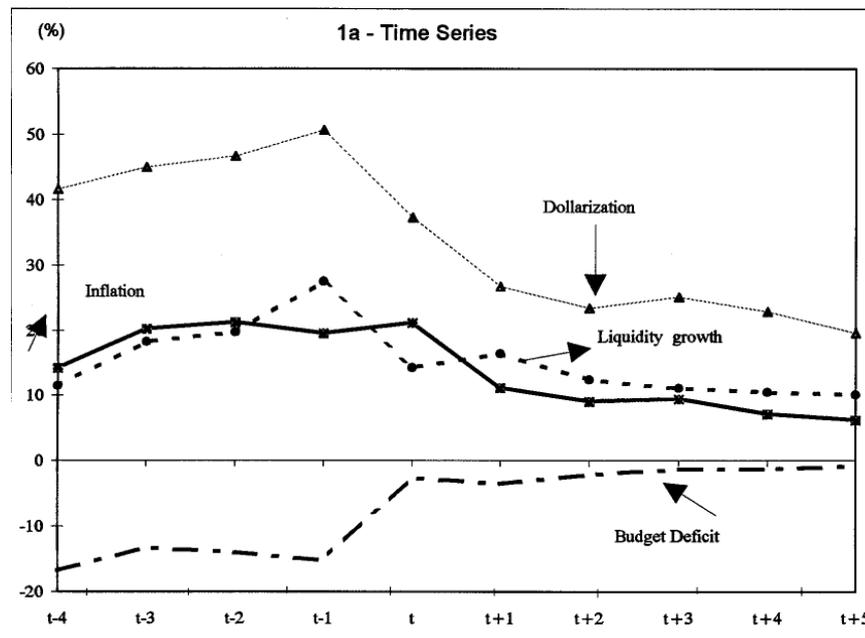
Source: Williamson 1989.

The stabilisation programme was remarkably successful when considered along the IMF guidelines (1997: 4). By 1997, public finances were in an unprecedented good condition (see Figure 3.1). The removal of the direct credit line between the Central Bank of Egypt (CBE) and the government led to a rapid deceleration in monetary expansion, with a remarkable reduction in the rate of inflation from an average of about 19 per cent a year during the 1987-1991 period to 4.6 per cent in 1997 (Zaki 2001: 1873). Similarly, the budget deficit was drastically reduced, from 15.3 per cent in 1991 to 1.3 per cent in 1996, 'an effort that has perhaps few international parallels in recent history' (IMF 1997: 7). As a result of changes in monetary policy, the level of dollarisation of the economy and the annual rate of liquidity growth also shrank under the stabilisation programme. The unification of the exchange rate led to a substantial increase in revenues, particularly from oil and Suez canal receipts, which combined with a reduction of budgetary expenditure by 7.5 per cent of GDP and with debt cancellation on the part of Paris Club countries was fundamental to deficit reduction (Ikram 2006: 67).

Fiscal discipline had been established, the exchange rate structure had been simplified leading to a more competitive pound making Egyptian exports

comparatively cheaper, and higher interest rates provided better investment opportunities. Real GDP growth at about 5 per cent a year during the stabilisation period compounded this rosy picture (Abdel-Khalek 2001: 60). From this perspective, after the stabilisation programme, Egypt was in a position 'to achieve high levels of real economic growth that can raise living standards, increase gainful employment opportunities, while ensuring that the fruits of economic growth are shared by all strata of society' (IMF 1997: 59).

Figure 3.1 - Key indicators for macroeconomic stabilisation



Source: IMF (1997). t=1991-92

However, the IMF narrative obfuscates at least three critical elements of the stabilisation programme. Firstly, the reduction and reorganisation of public expenditure was based on the so-called 'crowding out' assumption that simply did not work. In other words, reforms were crafted around an opposition between the public and the private sector, with the retreat of the former being a necessary preliminary step aimed at creating enough room for the private sector to step in and generate wealth more efficiently. Secondly, the monetary stance adopted had the merit of curbing inflation and rebalancing public finances, but at the same time harmed long-term growth. The dollar peg led to a real appreciation of the pound that further reduced the rate of savings (chronically low in the Egyptian case), as consumers were substituting present for future consumption in anticipation of

devaluation, thus being engaged in short-term and high-yield activities rather than projects with long-term developmental impact (Abdel-Khalek 2001: 89). Thirdly, and more interestingly, dramatic improvements in public finances indicators were helped substantially by a rather opaque accounting device. Following Law 203 of 1991, companies entirely under government control and reorganised under holding companies managed by the Ministry of Planning, had their balance sheets taken off the state budget while they were restructured before privatisation, thus contributing considerably to cut down both public expenditure and budget deficit (Mitchell 2002: 282).

Despite the controversies over the degree of success of ERSAP in stimulating the Egyptian economy, it is undoubted that macroeconomic stabilisation changed the overall stage on which economic policies would be framed, discussed and implemented. First of all, macroeconomic stabilisation proved that the Egyptian government could be pushed to follow from start to finish a reform programme agreed with IFIs, something that had not happened in the previous occasions when Egypt approached the IMF. Secondly, it provided a lens – the state vs. market dichotomy – that could be used to analyse any economic issue, also providing the corollary by which state intervention was the problem and had to be reduced to a minimum for the economy to grow faster. Thirdly, measures such as the limitation of public expenditure and a stricter monetary policy paved the way for the deeper process of neoliberalisation that was starting to unfold.

3.3.2. *'The IMF's model pupil': privatisation and liberalisation*

The structural adjustment programme was similarly moulded on the five remaining precepts of the Washington Consensus listed in Table 3.1, with great emphasis on the privatisation of state-owned enterprises (SOEs) and the elimination of illiberal practices characterising trade and capital movements. The new agreement signed in 1996 by the government with the IMF acknowledged that after achieving the stabilisation targets it was time to accelerate on the front of structural reforms.⁹⁶

The legal framework for privatisation was established at the very outset of stabilisation with Law 203 of 1991, or Public Business Sector Law. This created a

⁹⁶ The same message was already contained in the US-Egyptian Partnership for Economic Growth and Development, signed in 1996 and considered by some to be the main inspiration of the way structural reforms were conducted (Aidi 2009: 140).

three-tiered structure, with the Public Sector Office (PSO) overseeing the process of restructuring carried out by twenty-seven Holding Companies (HCs) over 314 affiliate companies, before their eventual sale to the private sector.⁹⁷ Yet, it was not until 1996 that the privatisations gathered some momentum, under the leadership of the prime minister Ganzouri (Ikram 2006: 79).

The numbers of the first wave of privatisations look rather impressive. By June 2000, the government had sold controlling interest in 118 enterprises and a minority interest in 16 more, with a total sales value of more than LE14 billion. In 1998, the Egyptian programme was ranked fourth in the world in terms of privatisation receipts as a share of GDP (IMF 1998: 52).⁹⁸ The slowdown of the economy following the shockwaves of the East Asian crisis and the difficulties in selling remaining SOEs brought privatisations to a halt by the end of the decade.

The second wave of privatisations would only take place after 2004, when the prolonged sluggishness of the economy pushed Mubarak to appoint a new cabinet, headed by the 'reformist' Ahmed Nazif. The launch of the Asset Management Programme (AMP) on the part of the newly created Ministry of Investment produced the impetus hoped for. Between 2004 and 2007, the new programme oversaw the sale of 130 state-owned assets,⁹⁹ with proceeds amounting to LE35 billion.¹⁰⁰ The success of the programme was such that between 2005 and 2009 Egypt was included for four years out of five among the top ten reformers in the *Doing Business Report* by the World Bank.¹⁰¹ Once again, exogenous shocks, this time in the form of the global financial crisis, halted privatisations, leading the government to move to 'an approach based on private-sector management of state-owned assets' in the wake of growing social unrest in newly privatised companies (EIU 2010b: 6).

With respect to trade liberalisation, the removal of non-tariff barriers had started already before ERSAP, and proceeded at a faster pace as the programme

⁹⁷ Already in 1993 there was a first streamlining of the HCs, which became seventeen (Ikram 2006: 80), before being further reduced to the nine existing today.

⁹⁸ Not long after these rankings were published, *The Economist* gave an account of the virtuous relation finally developing between international lending agencies and the Egyptian government, defining Egypt 'the IMF's model pupil' (18 March 1999).

⁹⁹ It is worthwhile noting that the definition of state-owned assets is significantly broader than that of SOEs, as it also includes stakes in joint ventures with the private sector.

¹⁰⁰ Estimated as about LE21 billion for the fiscal years 2004/05 and 2005/06 (EIU 2006a: 25) and LE14 billion for the fiscal year 2006/07 (IMF 2007: 5), excluding the proceeds deriving from the privatisation of Bank of Alexandria, discussed in the next section.

¹⁰¹ See the *Doing Business Report* website: <http://www.doingbusiness.org/Reforms/> (first accessed on 23 May 2010).

took off. In particular, import bans were reduced from 210 items in 1991 to 26 in 1993, cutting the production coverage of import bans over total manufacturing and agricultural production from 37.2 per cent in 1990 to 4.7 per cent in 1993. Similarly, the number of items subject to export bans was reduced from 20 to 2 and that of products subject to quantitative export quotas from 17 to 4 during the same period. During the second phase of ERSAP (1993-96), the government embarked on a three-year programme that further accelerated trade liberalisation (Abdel-Khalek 2001: 77-82). Whereas in the first years the nominal tariff rates grew, particularly as some non-tariff barriers were converted in their tariff equivalent, in the long run, 'as the programme gained momentum, there [was] a significant reduction in both nominal and effective protection' (Ibid: 81).

On the front of capital account liberalisation, the government started to intervene already in the early 1990s. A number of measures were adopted ranging from the liberalisation of interest rates to the abolition of credit ceilings for both the private and the public sector to the substantial reduction of foreign exchange controls. In 1991, a treasury bill system was established *in lieu* of the direct credit line between the Central Bank of Egypt (CBE) and the Ministry of Finance. Following IFIs pressures, there was a sharp reduction in all the main capital ratios for banks, from reserve ratios to be held on foreign exchange deposits, to reserve balances held at the CBE, to liquidity ratios on both local and foreign currency balances, to capital adequacy ratios brought in line with the demands of the Basel Committee. In less than a decade, most restrictions to the movement of capital had been dismantled (Ikram 2006: 181-2).

Overall, structural reforms produced two important movements towards the establishment of a neoliberal regime of capital accumulation. Firstly, as Abdel-Khalek put it, '*exchange* appears to have taken precedence over *production*' (2001: 42, original emphasis), with international lending agencies placing emphasis on reforming trade, interest rates and exchange rates before dealing with the real economy. Secondly, structural adjustment led to the removal of two cornerstones of *étatist* Egypt, which had survived *infatih* and Mubarak's first decade of hesitant reforms. On the one hand, the removal of most subsidies, despite the undoubted benefits on public finances, had a negative impact of long-term growth prospects, as it damaged both industries, facing a significant increase in energy prices (Abdel-Khalek 2001: 155-65), and poorer social groups, who could not afford anymore to

purchase items whose prices had surged. Secondly, the gradual dismantlement of welfare, with the move towards 'cost-recovery' systems both in healthcare and education (Mitchell 2002: 229; Tadros 2006: 240-6), led to services that were more expensive and regressively so.

3.4. From étatism towards neoliberalism? Weighing the evidence

Indicators at the macro level already provide a significant range of elements suggesting that the Egyptian economy changed substantially in the past two decades. Yet, it is not until we move into the real economy that we can clearly identify these trends as moves towards a neoliberal regime of capital accumulation. This section looks more specifically at how reforms unfolded respectively in agriculture, manufacturing and finance. The evidence shows that all the four features of neoliberalisation occurred with increasing frequency and intensity in Egypt between 1991 and 2010.

3.4.1. *Structural reforms in agriculture: giving land back to landlords*

The agricultural sector was the pioneer of structural reforms, with the first attempts at changing the structure of the sector dating back to the mid-1980s, when the minister of agriculture Yusuf Wali started a far-reaching programme under the sponsorship and supervision of USAID (Sadowski 1991: 144-54). There are several reasons explaining why it all started in agriculture. First of all, the sector had a great symbolic value, as it was where the features of the Nasserite social contract started to emerge with the 1952 land reform. At the same time, reforming productive relations in the countryside was perceived as more easily manageable than that in the factories, because of the higher concentration of the workforce in the latter, but also because of the long-standing urban bias, that the incumbent elites did not intend to put into question. Lastly, and closing the full circle with another measure of great symbolic value, a new land reform would give the regime a chance to compensate the landed elites dispossessed by Nasser in the wake of the implementation of Law 178 of 1952.

Whereas this was seen by many as 'Nasser's gift to peasants' (Saad 2003: 233), with its guarantee of secure tenancy, Law 96 of 1992 aimed at 'regulating the relationship between owner and peasant', but became known by its opponents as 'the law for throwing peasants out of their land' (Ibid: 229, ft.2). The new Law had

three main components. Firstly, rent was revised from seven to twenty-two times the land tax for a five-year transitional period, after which rents would be liberalised. Secondly, whereas under Nasser's reform law the tenancy contract was valid in perpetuity, and thus heirs of tenants *de facto* inherited land, under the new law owners were allowed to buy back the contract from the tenant, and after 1997 tenancy could be renewed for only twelve months. Thirdly, at the end of the transitional period, land could effectively change hands, with the owner being granted the right to evict the tenant if the land was to be sold and there was no agreement between the two. In order to settle owner-tenant conflicts, a reconciliation committee was established, but its impartiality and thus credibility was questioned from several quarters (Bush 1999: 46; Saad 2002: 120).

At the end of the transitional period land effectively changed hands, encountering the disbelief of millions of tenants convinced that the state would never fully implement the law (Saad 2003: 230). According to Mitchell, almost a million peasants were evicted and more than 700 thousand jobs were lost (2002: 265). Under the lenses of our definition of neoliberalisation, this could well be seen as a case in which a general crisis is managed by the regime in such a way as to favour a specific social group. At the same time, it is also a case of state redistribution of resources in highly regressive terms, with land taken away from small and medium tenants and given to large landlords.

Other than setting in place the legal instruments leading to a massive change in land ownership, the state also decided to withdraw from the sector, with measures ranging from the downsizing of the Principal Bank for Development and Agricultural Credit (PBDAC), which had historically been responsible for the provision of inputs for agricultural production, to the liberalisation of prices of such inputs and the elimination of subsidies on many of them (Bush 1999: 34). In other words, this was the practical application of the 'crowding out' thesis discussed above, which emphatically failed its Egyptian test, creating a hole in the provision of inputs that the private sector occupied through the extensive use of predatory practices, with a rise in prices that proved unsustainable for farmers, forcing the state to restart public provision alongside private one in 1995.

Yet, despite these grey areas, structural reforms in agriculture were soon claimed to be a success by both international lending agencies and government (Fletcher 1996), which highlighted an increased production of major crops in the

years following reforms (Nassar et al. 1996) and the increased role of the private sector in input, output and marketing (Goletti 1996). However, these triumphalist accounts seriously overlook several aspects which seem to point in a rather different direction. Firstly, as Bush aptly argued, the rise in production in the years following reforms was not necessarily due to reforms, and this was demonstrated by the fact that these increases were not sustained over time (2003: 133). Secondly, whereas it is true that Egypt exported more agricultural products, this was more than compensated by the increase in agricultural imports, which featured several items – wheat, sugar, edible oils – whose demand elasticity is very low, with a consequent worsening of the overall balance of trade. Lastly, the removal of subsidies led to a hike in production costs, forcing many small tenants to shift their production away from cereals and legumes and towards livestock feed (Mitchell 2002: 216).

To the economic results one should add the social consequences of these reforms. Two of them are particularly important. The first one is the staggering increase in rural inequality, whose roots are not hard to track down, considering the magnitude of the transfer in land ownership, and its repercussions in terms of both wealth and power relations more generally (Fergany 2002: 219-29). According to the Ministry of Agriculture (MALR 2000), by the turn of the century landholding had become more unequal than before 1952, with 2,281 holders (0.05 per cent of total holders) accounting for 11 per cent of the total landholding area. The other social consequence relates widespread violence which accompanied both the full implementation of Law 96 of 1992 and the management of owner-tenants relations over the past fifteen years. According to the Land Center for Human Rights (LCHR), an NGO devoted to provide legal advice to farmers and raise awareness of deteriorating living conditions in rural Egypt, more than 800 tenants were killed in land disputes following the full implementation of the new law, and more than 7 thousand were arrested.¹⁰²

3.4.2. Structural reforms in industry: 'no factories, no problems'

The bulk of the privatisations conducted under Law 203 of 1991 dealt with manufacturing companies. In the first phase of the process, despite the enthusiastic

¹⁰² Every six months LCHR issues a report on land disputes occurred in Egypt. The numbers above are the sums from the data provided in these reports. They can be found on the LCHR website: <http://212.12.226.70/indexe.htm> (first access on 15 April 2010).

reactions on the part of international lending agencies, the strategy pursued by the government appeared clear: privatising profitable companies whenever they did not belong to what were considered strategic sectors.

During the second phase, under the Nazif government, the drive towards privatisation touched upon previously 'off-limits' subsectors, such as cements and energy industry. For anyone familiar with Egyptian recent economic history, the role of cement in the construction booms systematically engineered by the three presidents is not surprising. Thus, the decision on the part of the government to surrender the majority share in the Suez Cement Company, allowing Ciments Français to increase its share from the 25 per cent acquired in 2001 to 54.2 per cent in 2005 stands out as the cornerstone of the revived privatisation programme launched under the leadership of the minister of investment, Mahmoud Mohieldin. The partial privatisation of two oil refineries in the same year also had a powerful symbolic value.¹⁰³ Yet, we are only talking of minority shares in two out of nine public sector refineries, which together with foreign multinationals still dominated the sector (Richter 2006).

How privatisation was conducive to neoliberalisation in the specific Egyptian case has already been discussed by several scholars (Beinin 1999 and 2009; Mitchell 1999a, 1999b and 2002). It is worthwhile noting that in its version in the Egyptian industry, neoliberalism came with two important peculiarities. On the one hand, and this will be discussed at length in Chapter 4, there was a tendency on the part of the government to make sure that privatisations would benefit those private sector groups that had been loyal to the regime, starting in the first place from *infitah* businessmen (Mitchell 2002: 282-3; Roll 2010: 358-9). On the other hand, by referring to a range of methods including private management of public assets and ESAs, the *state* formally divested several companies, but the *regime* did not lose the ultimate control over them.

Privatisation was only one of the facets characterising reforms in the sector, and even in manufacturing the measures mentioned earlier, from trade to price liberalisation to the removal of subsidies, had a major effect also on the industrial sector. A rather persuasive case has been made supporting the thesis that because of

¹⁰³ 20 per cent of both Sidi Krir for Petrochemicals (SIDPEC) and Alexandria Mineral and Oil Company (AMOC) were sold respectively in June and October 2005, through vastly oversubscribed Initial Public Offerings (IPOs).

such reforms Egypt suffered from de-industrialisation (Abdel-Khalek 2001). Other than to rising costs, this also related to the way privatisations were conducted, with public monopolies being substituted by private oligopolies at best or monopolies at worst. Following from this, the newly privatised companies had little incentive to become competitive abroad as long as they were able to dominate the local market.

Another reform with a strong impact on relations in the manufacturing sector was the new tax law, entered into force in 2005 after years of push and pull on the tax rate to be applied to companies. Whereas the maximum tax on industrial profits was cut by 2 per cent only,¹⁰⁴ what most benefited manufacturing companies was the preservation of the ten-years tax exemption in the new industrial cities offered under Law 43 of 1974. This had two major consequences. The first is that most new industrial activities were established in tax-free areas, with no revenues deriving for the state their first decade of activity. The second is that a significant number of companies dissolve at the end of the tax break and register under new names to get ten more years of tax exemption (Soliman 2011: 123-4). In contrast with this, industrial workers kept contributing through income taxes as much as they did before, facing at the same time the extra weight of indirect taxes, particularly in the form of the General Sales Tax.

All these aspects contributed considerably to the worsening of the position of the working class. Together with the transfer of ownership already discussed, and the redistribution of resources through reforms in the tax system, in this case we can also see a different type of redistribution, with workers being deprived of a series of rights that they had enjoyed under Nasser and Sadat. Within the factories, the reaction was a surge in labour activism, considered by the foremost expert on Egyptian labour movements as 'the largest and most sustained social movement in Egypt since the campaign to oust the British occupiers after World War II' (Beinin 2007).

3.4.3. *Financial sector reforms: follow the money!*

As mentioned in the general part, the conventional narrative on ERSAP blames the poor and worsening performance of SOEs for the foreign exchange crisis of the late

¹⁰⁴ The maximum tax rate on industrial profits was reduced from 32 to 30 per cent, whereas those on commercial profits and liberal professions were cut respectively from 40 to 20 and from 40 to 30 per cent.

1980s. Yet, the very documents produced by IFIs in the years following the approval and implementation of ERSAP allow to paint a significantly different picture, where the banking sector features prominently (IMF 1997 and 1998). Interestingly, in 1989/90, the fiscal year preceding ERSAP, only 54 out of 415 SOEs were suffering losses, and overall state-owned industry produced a net profit of LE1.2 billion. Whereas one should not forget that these figures also include petro-industry revenues, the sheer size of profits suggests that the main causes of the crisis were to be found somewhere else.

The limited opening of the banking sector effected under Sadat produced the emergence of joint-venture banks,¹⁰⁵ the proliferation of banks,¹⁰⁶ and their increased profitability. Yet, little had changed in the way the sector operated.¹⁰⁷ By 1985, the 'big four' state-owned banks – National Bank of Egypt (NBE), Banque Misr, Banque du Caire and Bank of Alexandria – still accounted for about 75 per cent of deposits and more than two thirds of loans (Ikram 2006: 181). More generally, the banking sector remained subject to practices that have been defined as 'illiberal' and 'repressive' (Bahaa Eldin and Mohieldin 1998: 111; Roe 1998: 87-92), and increased profitability could hardly be related to better performance. The inefficiency of official banks left room for the affirmation of Islamic money management companies, exploiting the principles of Islamic commercial law to escape regulations on interest rates. When the foreign exchange crisis started to materialise, official banks were short of hard currency and this forced the government to borrow at tougher conditions from Islamic companies. Under the pressures of the official banking sector, the government waged a one-year battle against Islamic investment companies, forcing them to either close down or reorganise themselves as joint-stock companies, thus subjecting them to much stricter legal and fiscal discipline. Whereas the aim of weakening the parallel banking sector was achieved, the elimination of the most dynamic players in the sector led to a financial depression that worsened the state budgetary position and forced the government to enter into negotiations with the IMF.

¹⁰⁵ Foreign banks were allowed up to 49 per cent participation.

¹⁰⁶ According to Ikram (2006: 181), between 1970 and 1985 the number of banks grew more than tenfold, from 8 to 83.

¹⁰⁷ Sadowski (1991: 234-47) provided a groundbreaking work on the anatomy of the Egyptian banking sector and its relevance in the foreign exchange crisis of the late 1980s. The following paragraph draws extensively on his account.

The measures adopted under the auspices of ERSAP can be characterised as a clear example of management and manipulation of crisis on the part of the regime in favour of the official banking sector, effectively leading to a redistribution of resources on regressive terms. In particular, the very first measure was the liberalisation of interest rates, with the government immediately contracting money supply, and thus pushing interest rates as high as 14 per cent above international market levels (Mitchell 2002: 279). This monetarist turn led to a flood of speculative capital, seeking gains from interest rate differential. In an attempt to rescue the suffering banks, the government issued treasury bonds (TBs) amounting to about 5.5 per cent of GDP, and allowed their yield to be tax-free, thus providing banks with a further fiscal subsidy that by 1996/97 was estimated to be worth about 10 per cent of GDP (IMF 1997: 35). Lastly, reserve requirements were lowered significantly, which – considering that reserves were subject to taxation – meant a further fiscal cut for banks.

The reforms carried out in the 1990s made banking extremely profitable. In the same way, though, the contribution of the banking sector to overall development remained minor. As soon as the interest rates were lowered, speculative capital fled Egypt, and the impact of the East Asian crisis further weakened the optimism related to a finance-driven development of the Egyptian economy. Indeed, the period between 1998 and 2003 was one of stagnation also for the financial sector.

As will be detailed in Chapter 4, the deteriorating economic situation provided the conditions for the emergence of a new generation of economists, policymakers and businessmen. By 2003, the tide changed entirely, and within twelve months Egypt had a new Central Banking Law (Law 88 of 2003), a new governor for the CBE itself and a new government. This was the beginning of the second wave of financial sector reforms, supervised by the World Bank, which would be halted only in 2008 by the global financial crisis. Once in power, the government proceeded with an aggressive programme of divesting state-owned shares in joint-venture banks, producing a sea change in the ownership structure of the Egyptian banking sector. By the end of 2006, 94 per cent of state-owned shares had been divested (World Bank 2006: 11, ft. 10). Even more significantly, the privatisation taboo regarding state-owned banks was finally infringed in 2006, with the sale of Bank of Alexandria to the Italian Banca San Paolo (later Intesa San Paolo), which paid \$2 billion for 80 per cent of the bank's equity, leaving the government with a 20 per

cent residual share (EIU 2006b: 21). As shown in Table 3.2, by June 2010 public banks accounted for 45 per cent of total assets and 44 per cent of total deposits, with private banks holding for the first time since 1960 the majority of both assets and deposits (World Bank 2010: 58).

Table 3.2 – Ownership structure of the banking sector (1990-2010)¹⁰⁸

Assets	1990	1992	1994	1996	1998	2000	2002	2004	2008	2010
<i>Public banks</i>	56.8	63.9	63.7	61.6	59.3	58.6	58.6	60.4	47.4	45.4
Commercial	49.3	57.0	57.8	55.7	52.8	51.7	52.0	53.9	41.9	40.8
Specialised	7.5	6.9	5.9	5.9	6.5	6.9	6.6	6.5	5.5	4.6
<i>Private banks</i>	43.2	36.1	36.3	38.4	40.7	41.4	41.4	39.6	52.6	54.6
Joint venture								20.8	1.3	1.7
Private								18.8	51.3	52.9
Deposits										
<i>Public banks</i>	61.5	67.6	69.9	66.9	64.0	61.8	60.4	60.1	47.1	44.2
Commercial	59.0	65.7	67.5	63.1	60.1	57.3	56.1	54.5	41.9	40.2
Specialised	2.5	1.9	2.4	3.8	3.9	4.5	4.3	5.6	5.2	4.0
<i>Private banks</i>	38.5	32.4	30.1	33.1	36.0	38.2	39.6	39.9	52.9	55.8
Joint venture								20.7	1.1	1.4
Private								19.2	51.8	54.4

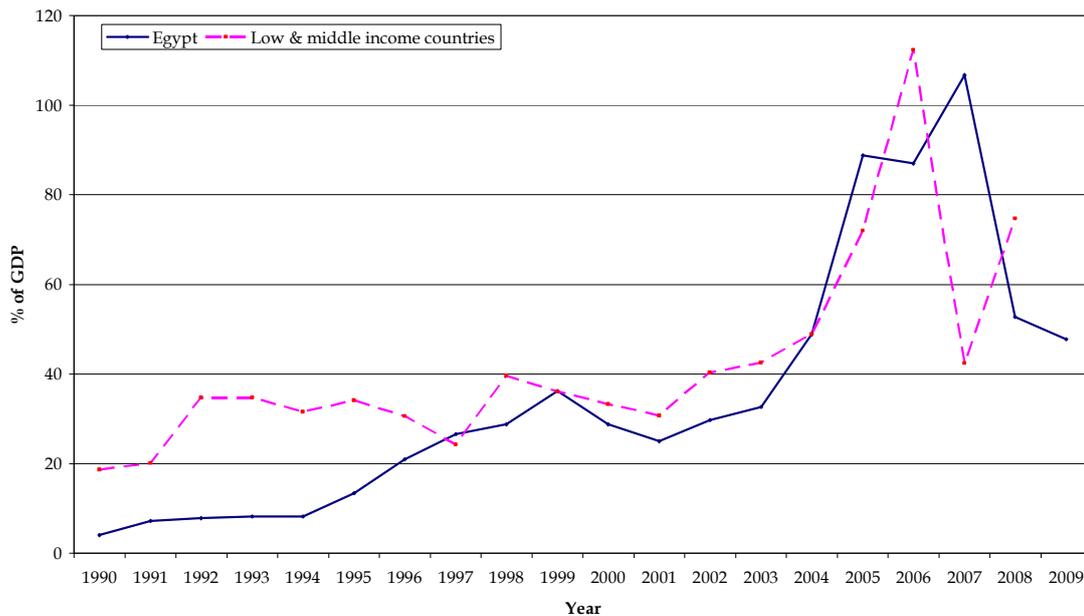
Source: CBE archives; estimates for 2010 from World Bank 2010b.

With respect to the revitalisation of the capital market, every consideration should start from the observation that until 1992 the stock exchange was ‘into a deep sleep’ (Roll 2010: 352). Seen from this perspective, the modifications brought about by new laws and regulations in the sector appear much more significant. In terms of performance, both market capitalisation and trading increased considerably (see Figures 3.2 and 3.3). Law 95 of 1992 effectively relaunched the capital market, with the aim of improving its role of intermediation before privatisation would take place (Shams-El-Din 1998: 147). Interestingly, and suggesting the predominant role of public sector banks within the overall financial sector, 40 per cent of sales proceeds deriving from the first wave of privatisations was used to pay off non-performing loans (NPLs) – i.e.: loans never paid back – held by public sector banks (IMF 1998: 52). The weakness of the Egyptian capital market *vis-à-vis* the banking sector is also

¹⁰⁸ It was not possible to retrieve the data regarding 2006, the year of the privatisation of Bank of Alexandria. No explanation was offered by CBE officials, even though it may well be that considering the number of operations they had troubles in recalculating the size of the two sectors for that specific year. Also, separate data for joint-venture and private banks became available only after 2004, after the entry into force of the new central banking law that changed bank classification criteria. Before then, joint-venture banks were considered as either public or private sector banks depending on their ownership structure.

witnessed by the limited investor base, with most investors being Egyptian and about 60 per cent of foreign investors coming from the rest of the Arab world (World Bank 2010b: 62), and by the fact that only 15 per cent of the companies allow more than 50 per cent of their shares to float freely on the stock exchange (World Bank 2009: 6).

Figure 3.2 - Market capitalisation of listed companies as share of GDP (1990-2009)



Source: World Bank 2010a.

Figure 3.3 - Total value traded as share of GDP (1995-2009)



Source: World Bank 2010a.

According to our definition of neoliberalisation, since the late 1980s crisis, the Egyptian financial sector experienced at least three of the main processes outlined earlier. The crisis itself was used as a way of bolstering the position of the financial sector as a whole, and of banks in particular. This resembled very much the characterisation made by Wade and Veneroso, who argued that '[f]inancial crises have always caused transfers of ownership and power to those that keep their own assets intact and who are in a position to create credit' (1998: 23). Thus, the costs of the crisis were borne by that large portion of society without access – or with minimal access – to financial instruments, with banks reaping the benefits of government measures in a textbook case of redistribution of resources away from citizens towards those in the 'commanding heights' of the domestic financial sector, be they public-sector managers or private bankers. With respect to this latter distinction, the ownership transfer experienced through divestiture and privatisation constitutes yet another point in support of the neoliberalisation thesis. Lastly, another element worth considering is the impact of tax reforms on the financial sector. Historically, taxes on capital accounted for very little as a percentage of tax revenues.¹⁰⁹ The Reaganomics approach embedded in the new income tax – i.e.: to increase tax revenues you need to lower tax rates – did not lead to any major change in the contribution of financial companies to tax revenues, thus suggesting that another form of redistribution, once again ratified by law, further strengthened the position of financial sector actors.

3.5. Conclusion

This chapter has discussed the political economy of republican Egypt with particular attention to the evolution of the regime of capital accumulation. Despite the undeniable modifications brought about by *infitah*, there is an underlying thread – that of *étatisme* – linking the Nasser and Sadat presidencies. Together with the minor role played by private foreign capital compared to other developing countries, this element seemed to be the fundamental reason for why Egypt appeared resilient to the pressures towards global economic integration *via* liberalisation and privatisation exerted by IFIs in the developing world. The

¹⁰⁹ According to Soliman (2011: 117, Table 4.2), the capital tax accounted for only 0.1 per cent of the total tax revenues in 2001.

structural dependence of the Egyptian economy, though worsening as witnessed by the burgeoning debt, did not seem to prove enough to threaten this configuration.

ERSAP truly marked a sea change, forcing the government to adapt to the changed conditions and pushing it towards a re-orientation of the economic structure towards a new regime of capital accumulation (Hill 2003). Whereas it is would be erroneous to ignore that there are still conflicting tendencies at play, and even more so today in the wake of Mubarak's fall, it appears that neoliberalism gained much ground in the shaping and management of the Egyptian economy. This chapter has argued that macroeconomic stabilisation prepared the terrain for neoliberalisation, mostly by structuring issues related to public finances around an opposition between state and market that proved very influential in the following waves of reforms. This analytical dichotomy was first adopted with respect to the reduction of public expenditures, a patchy yet steady reform of the tax system, the liberalisation of interest rates and the unification of exchange rates at the level of the most devalued one.

Structural adjustment brought a qualitative change in that policies inspired by neoliberalism began to be adopted more frequently, and this chapter has discussed the increasing occurrence of the four processes identified with neoliberalisation. We have seen how privatisation has considerably downsized state ownership in the economy, arriving in its second wave to touch sectors once considered highly strategic such as steel, cements, petro-industry and also – although marginally – banks. The increasing relevance of the financial sector has also been discussed, even though a significant difference with neoliberalised Western economies was the persisting dominance of the banking sector over the stock exchange, which allowed the regime to preserve some degree of control. We have also explored the way in which a crisis related to the ever-increasing budgetary pressures was managed and manipulated to restructure wider power relations. Deficit and debt problems had resurfaced already by the late 1990s (Wurzel 2009), but in the meanwhile power relations had changed for good. Lastly, and more eloquently, we have seen all the cases in which the state effected redistributions – of land, money and rights – in favour of capital and land owners and against the large majority of the Egyptian population.

If a shift towards a neoliberal accumulation regime can be seen in Egypt, what were its consequences on the political regime? On which spatial scale should we

locate the forces that led to its adoption? And this, was it related to material conditions or was mostly driven by ideas? These are the three questions on which the next chapters will respectively focus.

Chapter 4

THE EMERGENCE OF NEOLIBERAL AUTHORITARIANISM: THE ARTICULATION OF THE ECONOMIC AND THE POLITICAL

4.1. Introduction

One of the advantages of relying on Gramsci, as discussed in the theoretical part, is that it allows us to develop an account that is structurally grounded but where at the same time agency retains a fundamental role in determining the course of history. The importance of political superstructures, and among them of the state, is even more prominent in the case of authoritarian regimes, exactly because of the central position of state apparatuses in steering, supervising and controlling evolutions in most aspects of social life. The relevance of the state is further heightened when the country under consideration has a rentier economy, as the bulk of the various forms of rent are funnelled towards the state, which as a consequence tends to develop a high degree of independence from its society (Beblawi and Luciani 1987).

In the previous chapter we have already discussed the increased reliance on rent of the Egyptian state particularly since Sadat's *infitah*. While the debate on whether the Egyptian economy is a rentier economy *strictu sensu* is still open, few would maintain that Egypt cannot be included at least in the category of semi-rentiers (Beblawi 1990: 59-62), as its economy is based on a mixture of productive capabilities, rents proper (oil, Suez canal receipts, remittances, tourism and foreign assistance) and second-order rent, mainly in the form of speculation in the real estate and in the stock market. Hence, Egypt falls halfway between the idealtypes of allocation and production states provided by Luciani (1990).¹¹⁰

In the specific Egyptian case, the predominant role of the state has at least two major consequences on the relation between the economic and the political. Firstly,

¹¹⁰ Luciani himself has a different position on the issue, maintaining that Egypt constitutes the quintessential form of the production state in the Middle East (1990: 79). However, I would contend that whereas this description is accurate when referring to Nasser's Egypt, the increased role of rent under both Sadat and Mubarak places Egypt closer to the category of 'induced allocation state' than Luciani would admit.

reliance on rent and dominant position of the state in direct production since Nasser led to a blurring of the separation between the economic and the political realm constitutive of capitalist social relations. Whereas the last twenty years certainly provided a shift with respect to the direct involvement of the state in production, the role of rent has gradually increased since the 1970s, thus leaving Egyptians with the perception that the state, and those who control it, are still the main actors not only in the political but also in the economic sphere. Secondly, this dominant position of the state has major implications also on the way we conceptualise it. More specifically, theories that see the state either as the functional extension of the ruling class, as often happens with Marxist studies,¹¹¹ or as the arena where conflicts about the production and allocation of resources are settled, as typical of pluralist analyses,¹¹² are not particularly well-suited to analyse the Egyptian case. In both cases, the state is considered as inert and this clashes with Egyptian recent history, which shows a state that has been anything but inert. Thus, the state should also be considered as an actor in its own right,¹¹³ being able to produce independent effects both economically and politically. For example, in Egypt the state has been remarkably successful in creating its own classes, first in the form of a state class proper, made up of army officials and bureaucrats, and then shaping the *infitah* bourgeoisie and largely subjecting it to its whims.

This is not however to slide towards the opposite side of the argument, with the state determining everything also in the economic sphere. Rather, after having discussed how the last two decades saw Egypt move from an *étatist* towards a neoliberal regime of capital accumulation and how this impacted on the balance of class forces, this chapter focuses on the ways in which political agency has been able to act within the boundaries set by a new accumulation regime in order to transform neoliberalism and reshape authoritarianism at once. Hence, the first section discusses the role of political agency in the reform of agriculture, industry and finance. The evidence provided in this section is then used to discuss the main

¹¹¹ Both in the Marxian famous characterisation of the state as ‘executive committee of the bourgeoisie’ in *The Communist Manifesto* and in the more sophisticated account by Poulantzas that sees the state as the instrument by which the capitalist class achieves its long-term collective interests, regardless of the short-term individual struggles between single capitalists driven by their individual interests. (Poulantzas 1969).

¹¹² Particularly as embodied in Dahl’s definition of polyarchy (1971).

¹¹³ Historical institutionalism, particularly in the work of Theda Skocpol (1979) and Peter Evans (1995), also moves in this direction.

mainstream accounts about the relation between economic and political change, focusing on modernisation theory and the predatory elite thesis. The second section ends with an evaluation of the analytical power of the Gramscian approach developed here, by focusing on the role of class forces in shaping the terrain in which political agency takes place. In the last section, the implications of this approach are fleshed out, particularly with reference to how the concept of articulation helps us make sense of the emergence of neoliberal authoritarianism.

4.2. Regimes, policies and politics: empirical study

There are certainly differences in the way political agency has been deployed in order to effect reforms and to control their effects in the three sectors under consideration. In agriculture, we see the privatisation of functions once performed by the state in the hands of members of the ruling bloc, hence leaving the regime with a substantial measure of control. In industry, the regime tended to attract more and more businessmen either within the ruling NDP, as members of parliament (MPs), and since 2004 directly as cabinet members, leading to a capture of institutions on the part of the emerging capitalist elite. In finance, the strategy pursued by the ruling bloc saw on the one hand an increasing role for technocrats and on the other the persistence of pre-existing practices on the part of the regime aiming at keeping businessmen under check.

Despite these and many other differences, in the political sphere two main channels were used to produce this hybridisation of neoliberalism. On the one hand, we have institutional channels, ranging from shifts in the balance of power between already existing institutions to the creation of entirely new ones. On the other hand, it is possible to identify informal dynamics strengthening what has been called ‘a political marriage between the state bureaucracy and capitalism under the umbrella of the regime and the NDP’ (Soliman 2011: 154). Among these mechanisms, one can see the occupation of the newly liberalised companies by *infatih* families, the construction of business alliances in order to raise informal barriers to entry in specific sectors, and the organisation of the rising capitalist elite into increasingly powerful business associations. The functioning of these channels is premised on a well-established fact: being capital concentrated in relatively few hands, it is also extremely fungible. Thus, it is anything but surprising that wealthy businessmen engage in activities on all the three sectors under consideration, depending on a

series of factors ranging from government support to expected gains to international prices.

4.2.1. *Agriculture: state withdraws, business steps in, regime controls*

As we have seen in the previous chapter, neoliberalisation in agriculture had an enormous impact on class relations in the countryside. Accumulation by dispossession on the national scale triggered either the proletarianisation of small tenants and peasants or their emigration towards Cairo and Alexandria, feeding the thriving informal economy. In the countryside, class relations shifted dramatically in favour of an extremely thin stratum – estimated as less than 0.05 per cent – of landlords owning more than 10 per cent of total landholding area (Bush 2007: 1612), in a few cases still living the life of the absentee landlord but more and more often turned into entrepreneurs. On the losing end of reforms, it is not too difficult to identify small landholders, tenants and peasants increasingly pushed to sell their labour force within a system more based on coercion than on demand and supply mechanisms (Bush 2000: 242).

The privileged position of large landlords in the countryside was increasingly matched by their central position within the state machine. More generally, there were two main institutional mechanisms allowing landed groups to get it their own way. Firstly, landlords acquired a dominant position within the Egyptian parliament already in the 1970s, organising the formulation of policies in such a way as to exclude peasants (Bush 2000: 244). In the 1960s, Nasser decreed that half the seats of the People's Assembly had to be reserved for the lower classes, with two seats in each electoral district being filled respectively by either an industrial worker or a peasant and by a professional or an official. This provision was never formally repealed, but already under Sadat seats reserved for peasants had been monopolised by the wealthiest of them or by clients of notables. When the 1992 tenancy law was issued, '[t]he parliament that approved the law did not contain one tenant' (Saad 2002: 106). This allowed landlords to frame the issue according to their concerns not only in parliament, but also in the wider public discussion, with tenants being 'collectively accused of laziness, of spending too much on entertainment and of enjoying the benefits of cheap rents while not increasing productivity' (Bush 2007: 1606).

The second institutional mechanism used by landlords to orient policy developments in the preferred direction was the gradual weakening of traditional public sector institutions. In the case of agricultural production, the institution to be weakened was identified already in the 1980s in the PBDAC, the specialised agricultural bank responsible for both credit and input provision (Sadowski 1991: 201-6). The renaming of the bank in 1976 signalled not only a cosmetic change,¹¹⁴ but also a major shift in lending practices, with short-term term loans decreasing from 97.4 per cent in the 1960-75 period to 71 per cent in 1984 (Ibid: 202). Long-term loans had to be covered by collateral in land, and thus were monopolised by rich farmers. Rather than addressing the credit shortage faced by smaller farmers and tenants, the reform of PBDAC went in the opposition direction, ending its monopoly in input provision and liberalising prices. The combination of these aspects with the full implementation of Law 96 of 1992 meant very different things depending on where you sat on the social scale. Those at the lower end found themselves landless, with little or no access to credit and increased input prices. Those at the top had a chance to increase significantly the size of their landholdings, access to longer-term loans and sometimes become themselves providers of agricultural inputs, thus potentially benefiting three times from reforms.

The informal mechanism most clearly visible in the agricultural sector, and by far the most relevant in explaining how neoliberalisation was accompanied by authoritarian reorganisation, was the occupation of what is still a niche market – export-oriented agriculture – by families belonging to the *infitalh* bourgeoisie, and thus strongly linked to the regime. The classical example found in the literature is the history of Osman Ahmed Osman (Hinnebusch 1985: 97; Sadowski 1991: 111-6; Mitchell 2002: 282). Starting with an engineering company in 1949, over the years he was able to retain the managerial control of the company despite its formal nationalisation by Nasser and to consolidate a personal link with Sadat. Today, his company – Arab Contractors – is one of the largest construction companies in the Middle East and Africa, employing over sixty thousand workers.¹¹⁵ Exploiting a provision under Law 43 of 1974 allowing public sector firms entering in joint

¹¹⁴ Created in 1930 as the Agricultural Credit Bank, it was renamed General Organisation for Agricultural and Cooperative Credit under Nasser.

¹¹⁵ According to the company website:

<http://www.arabcont.com/english/about/interview.aspx> (first accessed on 21 March 2011).

ventures with foreign capital to be treated as private companies,¹¹⁶ Osman negotiated a deal with Pepsico and entered into the most lucrative business that agriculture in Egypt can provide: land reclamation. Once Pepsico decided to sell its shares because of serious managerial divergences and administrative problems, Arab Contractors was ready to step in, becoming once more a public sector company and thus gaining access to subsidised loans, fuel and fertilisers (Sadowski 1991: 113-5).¹¹⁷

Whereas Osman's rise took place during the 1970s, it already suggests how economic opening can be managed in such a way as to favour those with strong ties to the regime. Reforms carried out in the 1980s and 1990s had a similar twist. John Sfakianakis studied the way in which neoliberal reforms were used to their own advantage by business groups that started investing in agriculture as it became profitable following state withdrawal (2002 and 2004). In particular, his focus was on the occupation of the export-oriented agricultural sector by families with close ties to the regime and whose core interests were to be found somewhere else. Among these, a prominent role was taken by the Diab family, with business interests in as varied sectors as oil services, real estate and high-end pastry (Sfakianakis 2002: 65-6). Similarly, the business alliance between the Mansour and Meghraby families was mostly focused on tourism, real estate and finance. Whereas these actors certainly showed remarkable entrepreneurial skills, what is most relevant for this study is that they entered this sector mostly out of a combination of connections, proximity to bureaucrats and easy access to capital (Ibid: 69).

Through the extensive use of these mechanisms, the ruling bloc was able both to entrench neoliberalism and to reshape power relations within the regime. With respect to giving more solid foundations to the neoliberal turn, downsizing public institutions such as PBDAC and replacing them with private companies made sure that the direct role of the state in the management of agriculture was minimised. Under this new framework, the role of the state was curtailed and largely 'limited to setting up the legal, political and military functions required to guarantee the proper functioning of markets and their creation in those sectors where markets did

¹¹⁶ Namely this meant: exemption from price controls, independent budgeting authority, and most of all ability to retain profits instead of channelling them towards the treasury.

¹¹⁷ As one American official interviewed by Clement Moore put it: 'We give Arab Contractors low marks. They want to be a private company when it's good for them and they want to be a public company when it's good for them' (Moore 1986: 636)

not exist' (Harvey 2005: 2).¹¹⁸ Indeed, the imposition of market relations in the management of Egyptian agriculture seems an element that keeps together both supporters and critics of the reform process.¹¹⁹

This is not to say that the regime lost control over the agricultural sector. Rather, while the channels used by the regime to affect agriculture changed, its role in taking decisions and shaping outcomes did not. Both institutional and informal mechanisms are of great importance in explaining how this happened. Replacing PBDAC with private sector input and credit providers meant that the regime decided to rely less on the state and more on components of the ruling bloc willing to have an active role in establishing market relations in agriculture. At the same time, the domination of the decision-making process on the part of a parliament particularly sensitive to landed interests kept at bay outsiders that could jeopardise regime stability. Lastly, the profile of business groups entering into agriculture makes it possible to understand which part of the private sector was more likely to step in. These actors were already part of the regime's inner circle or at least of the wider ruling bloc. They already had enough capital available to allow them to take the capital-intensive functions once performed by public institutions. In other words, what we see happening is a privatisation of a different kind from the one intended in Washington, but a privatisation nonetheless, with functions previously performed by the state carried out by members of the wider ruling bloc in their private capacity. This obviously had an impact also on intra-regime relations, as these groups taking over socially relevant functions became more important in ensuring regime survival, and hence were empowered *vis-à-vis* other components of the ruling bloc. Thus, replacing the state in the agricultural sector allowed select businessmen with strong ties to the regime to obtain substantial gains in both economic and political terms. This should be demonstrated by a rising number of businessmen becoming key players in Egyptian economic policy-making over the past two decades, if it is true that '[t]he distribution of political positions in Egypt obeys a precise equation that reflects the relative weight of various groups in the regime' (Soliman 2011: 150). The next subsection shows that this was the case.

¹¹⁸ The definition of neoliberal regime of capital accumulation given in Chapter 3.

¹¹⁹ More than twenty years after the beginning of the reform process, the main difference between the two camps appears that for its supporters (World Bank, USAID and the Egyptian government) market relations have not gone far enough, whereas for its critics market relations are the main problem, as they lead to the 'differential incorporation' of labour within market-oriented economic processes (Bush 2004: 675).

4.2.2. *Industry: the political rise of the business elite and institutional capture*

Structural reforms in the manufacturing sector over the past two decades undoubtedly changed relations of class forces in the sector. In particular, it is possible to identify at least two instances of accumulation by dispossession which put the big business component in a more favourable position *vis-à-vis* industrial workers. Firstly, the growing number of privatised industries meant that a much larger share of the Egyptian working class was not covered anymore by provisions characterising private sector workers, particularly with respect to working standards, amounting to what we may call a dispossession of rights. The other form of dispossession has more direct material relevance, with the minimum wage and the bonus for public sector workers being respectively held to LE36 and LE100 between 1984 and 2010 and thus being at the core of widespread working class protests across the country (Beinin and El-Hamalawy 2007a and 2007b; El Amrani 2011). Under the almost perennial high inflation characteristic of Egypt, the purchasing power of the working class had been severely curtailed, and the process by which this happened might be characterised as accumulation by dispossession authored through government inaction.¹²⁰ Add to these elements the regressive impact produced across the board by tax reforms, and you get a sense of the transformations in class relations in the Egyptian manufacturing sector.

The economic rise of the business component followed from and further strengthened its political rise. This mutual constitution is fundamental for understanding the forms in which political agency moved towards both the consolidation of the neoliberal agenda and the reshaping of power relations within the ruling bloc supporting authoritarian rule. Again, it is possible to identify both institutional and informal mechanisms driving these two processes, even though in the case of industry boundaries are somewhat more blurred, as the long-standing state intervention and ownership in the sector made the relation between formal frameworks and informal networks much less clear.

Among the institutional channels, two of them appear the most relevant. Firstly, there was a shift with respect to which ministry dominated decisions regarding the industrial sector. More specifically, the Ministry of Planning, a key

¹²⁰ An enlightening and convincing case for the importance of inaction in allowing transfers of wealth has been made with reference to the US by Hacker and Pierson (2010: 52-4).

actor in the management of the economy during the *étatist* phase and historically characterised by a strong interventionist outlook, was largely replaced by the Ministry of Trade and Industry,¹²¹ one of the most outward-oriented ministries (Soliman 2011: 131-5). This shift is even more evident in the customary practice developed during the Nazif government to discuss economic policies within a smaller subset of ministers, called the Economic Group, dominated by the so-called troika: Youssef Boutros Ghali for the Ministry of Finance, Mahmoud Mohieldin for the Ministry of Investment and Rashid Mohammed Rashid for the Ministry of Trade and Industry. As a consequence, dissident voices were gradually sidelined within the cabinet,¹²² whereas at the same time the cabinet itself 'almost totally dominates the decision-making process' (Soliman 2011: 146).

The second institutional mechanism is an even more direct one, with businessmen becoming increasingly engaged into politics since the late 1990s in three different capacities: as members of the ruling NDP, by running – and more often than not being elected – for a seat in parliament, and as members of the cabinet. During the late 1990s, when the economy was dragged back into high deficits and low growth, the ruling party decided to widen its membership, by attempting to attract a younger generation of Egyptians who had been successful in the private sector. The role of Gamal Mubarak as the catalyst of this newly created political class cannot possibly be overestimated (Collombier 2006: 8-10; Soliman 2011: 3), and the party ranks were effectively beefed up with a number of businessmen in their thirties and forties who became prominent in Egyptian politics particularly under Nazif.

A further step would see these businessmen seeking direct political power, for example through election in parliament. This is exactly what happened, with the ratio of businessmen to total MPs rising from 12 per cent in 1995 to 17 in 2000 to 22 per cent in 2005 (Soliman 2011: 145-6).¹²³ The rise in numbers was accompanied by a rise in their prestige, with big entrepreneurs violating what was once a *domaine*

¹²¹ Interestingly enough, the very name of this ministry is one such instance of putting exchange (Trade) before production (Industry), as Abdel-Khalek put it (2001: 42), confirming the pervasiveness of neoliberalism even in the language of economic policy-making. More on this in Chapter 6.

¹²² I thank Holger Albrecht of the American University in Cairo for bringing this point to my attention.

¹²³ In absolute terms, the number of businessmen rose from thirty-seven in 1995 to seventy-seven in 2000 to one hundred in 2005.

réserve for bureaucrats and military officers such as the chairing of parliamentary committees. In 2004, the most important one – the Budget and Planning Committee – was assigned to Ahmed Ezz, steel magnate and close friend of Gamal Mubarak.

As mentioned earlier though, heads of parliamentary committees do not get to influence economic policies as much as it usually happens in democratic systems. Yet, under Nazif businessmen made it directly into the core of the Egyptian policy-making apparatus, being appointed to head extremely relevant ministries. Rashid Mohammed Rashid, minister of trade and industry, was himself a prominent businessman, serving as president of Unilever North Africa, Middle East and Turkey, the regional branch of the multinational corporation, before being appointed to the ministerial post. At the same time, he kept side-interests in as varied sectors as food processing and finance, with a large stake in EFG-Hermes, one of the largest private banks in Egypt, through a joint venture with two other well-connected families, the already mentioned Meghraby and Mansour. These two families were also partners in the Palm Hills Development Company, mostly active in construction and tourism. Incidentally, Ahmed Meghraby and Mohamed Mansour, coming exactly from these families, became respectively minister of tourism and minister of transport under Nazif.

There are also two informal channels further bolstering the position of the capitalist elite. The first one was already mentioned in the previous chapter and regards the way in which privatisations have been carried out, favouring regime cronies up to the point of allowing them to replace state monopolies with private quasi-monopolies. The case of Ahmed Ezz is exemplary in this respect, with one single entrepreneur capable of ‘building up market leadership out of the blue’ in the steel sector, controlling about 60 per cent of domestic steel production a mere decade away from the beginning of the privatisation process (Roll 2010: 356-7). Other extremely influential families that benefited greatly from privatisation include the Bahgat and Sawiris groups, belonging to the *infatih* bourgeoisie created by Sadat. During the 1970s Ahmed Bahgat had been able to use free zones and investment incentives to become the largest producer of TV sets in the Middle East. During the 1990s, the privatisation process allowed his group to take over some SOEs and military production facilities which helped him upgrading his business ‘from assembling Korean sets to making Philips and own-name brands’ (Mitchell 2002: 285). At the same time, he launched one of the most ambitious construction

projects in Egypt's recent history, creating 'Dreamland', a luxury development meant to give a secluded shelter to the *nouveau riches* who could not cope anymore with the crowded life of Cairo (Mitchell 1999a). Similarly, Orascom - the construction company owned by the Sawiris family - had become a giant in the Egyptian market in the aftermath of Sadat's *infitah*. During the 1990s, Naguib Sawiris was ready to capitalise from the liberalisation and privatisation of telecoms, the first subsector in services to be reformed. Orascom Telecoms became the main local partner of the French company Orange in the first mobile operator in Egypt, MobiNil, and it also extended its reach overseas, acquiring in 2005 the third largest Italian mobile operator, Wind. In both cases, there are little doubts that the accumulation of wealth due to *infitah* and the close ties to the regime were instrumental for the Bahgat and the Sawiris business groups to become dominant forces in their respective sectors.

The second informal channel, even though more of a hybrid one, relates to the increased role of pressure groups in articulating the demands and proposals of large domestic business. These pressure groups articulated themselves as business associations somehow detached from governmental control, contrary to what happened under Nasser and Sadat.¹²⁴ In particular, the American Chamber of Commerce in Egypt (AmCham), established in 1981 by local businessmen with the support of the US embassy, and the Egyptian Businessmen's Association (EBA), created in 1982, became customarily involved in consultations over industrial and more generally economic policies, despite their membership being limited to the hundreds.¹²⁵ Through this channel, Egyptian businessmen were able to influence both decision-making and the overall framing of issues. Soliman provides some evidence with respect to the way the tax reform was carried out, and how in the early 1990s EBA lobbied successfully against a comprehensive tax reform and in favour of the imposition of the General Sales Tax, thus an indirect tax hitting more heavily consumers than businessmen or merchants (2011: 110-1). An interesting indication of the power of AmCham in setting the agenda, and one on which I will expand in Chapter 6, is the relevance acquired by *Business Monthly*, a magazine

¹²⁴ Until the early 1980s, businessmen were organised in two associations - Federation of Chambers of Commerce and Federation of Industries - both with heavy representation from public sector firms and somehow controlled by the state (Sadowski 1991: 136).

¹²⁵ The members databases on the AmCham and the EBA websites contain respectively 925 and 432 entries as of 8 August 2011.

published by AmCham and arguably the most read and influential one on economic and business issues in the country.

Thus, even with respect to the manufacturing sector we see how well-positioned actors were able to use the constraints and opportunities offered by the shift towards a new accumulation regime and eventually shape both economic and political outcomes. On the one hand, neoliberalism was reinforced significantly via institutional mechanisms, with outward-oriented ministries increasing taking charge of economic policies and businessmen becoming ever more prominent in parliament and in government. On the other hand, these two mechanisms interacted with informal ones to produce a reorganisation of power relations within the ruling bloc. Economic empires emerged only in the hands of businessmen strongly tied to the regime, and whereas this entailed an empowerment of this component *vis-à-vis* the army, it did not lead to the detachment of these business groups from the regime itself.

4.2.3. Finance: technocrats, the *infatih* class and wealth concentration

As usually happens with finance, the winners of the reform process were few, extremely well-organised and relatively easy to identify, whereas the losers were many, dispersed and with limited opportunities to overturn policies. In the previous chapter we have seen how reforms in finance produced a massive transfer of wealth away from the already limited resources of the common Egyptian citizen in favour of a handful of banks and businessmen involved in them. The clearest form of accumulation by dispossession in this sector could be seen in the various forms of fiscal incentives for companies listed in the stock exchange (Shams El-Din 1998: 153-4). All of this was compounded by privatisations and other forms of redistribution discussed in the previous chapter.

The implementation and consolidation of a neoliberal path and its congruence with the persistence of an authoritarian regime were once again guaranteed through a variety of institutional and informal mechanisms. Among the former, the empowerment of specific public institutions as opposed to others dominating pre-reform policy-making is once again our starting point. With respect to the cabinet, the last two decades saw a gradual empowerment of the Ministry of Finance and the impetuous rise of the newly created Ministry of Investment. The former had become increasingly irrelevant under Nasser, who fought for concentrating all economic

policies under the control of the Ministry of Planning. Only with ERSAP the Ministry of Finance regained some of its pre-coup prestige, being in charge of deficit and debt reduction, thus placed at the forefront of the battle for helping Egypt meet the criteria of the agreement and thus obtain loans and debt forgiveness. Soon after the appointment of the Nazif cabinet, the increased relevance of the Ministry of Finance was soon proved when the new minister Youssef Boutros Ghali forced the issue to pass the long-awaited income tax law, showing how this ministry had finally been able to take fiscal policy under its exclusive control (Soliman 2011: 124-5). Under the pressures of the Economic Committee of the NDP, the Nazif government also created a brand new ministry - the Ministry of Investment - pooling together all the competencies regarding the financial sector, previously scattered around four different ministries.¹²⁶ As already suggested, the synergy between these two ministries and the Ministry of Trade and Industry was the engine behind the second wave of economic reforms between 2004 and 2008.

Outside of the cabinet, important institutional shifts also took place, particularly with respect to the strength and autonomy gained by the CBE. Law 88 of 2003 went a long way in giving the CBE the instruments and independence usually granted to central banking institutions in advanced economies. Firstly, the CBE was made formally independent from the Ministry of Finance, breaking the age-long trend that had seen government's borrowing needs dictating monetary policy. Secondly, the CBE was given an explicit goal to aim for, price stability, following in this respect the neoliberal wave that saw central bank concerns for full employment as counter-productive. Lastly, the CBE was given a mandate to implement more effective regulations, from prudential measures to settlement of non-performing loans (NPL) to a longer term process focusing on making the banking sector compliant with Basel II regulations (World Bank 2010b: 13). In other words, a clear division of labour was established between the three main actors in the financial sector. The Ministry of Finance was put in charge of setting the fiscal framework, the CBE was responsible for monetary policy, and the Ministry of Investment carried out reforms in order to open up the sector and make it more attractive to foreign investors.

¹²⁶ Namely the ministries involved were: Trade and Industry, Planning, Housing, Economic Development.

This arrangement with respect to financial sector policies was bolstered by the affinities with respect to the technocratic background and the neoliberal outlook shared by the three personalities in charge of these institutions between 2004 and 2010. After a career at the IMF, Youssef Boutros Ghali taught at both Cairo University and the American University in Cairo while serving as advisor to the CBE governor. He was part of the team that negotiated ERSAP with the IMF and the World Bank. During the 1990s he started to cover ministerial posts and came under attack from the *étatist* wing within the NDP for his neoliberal views at the time of the 2000 parliamentary elections,¹²⁷ losing part of his portfolio before emerging stronger than ever under the Nazif cabinet as the new minister of finance. Mahmoud Mohieldin, on his part, read economics at Cairo University, the quintessential institution for studying the subject in Egypt and one with very close ties to the regime.¹²⁸ He then moved to the UK to get a Masters degree at York and a PhD in economics at Warwick. Once back in Egypt in the mid-1990s, he started lecturing at Cairo University and was involved from the very outset in the creation and management of the Egyptian Center of Economic Studies (ECES), becoming soon one of its leading economists. At the same time, he began his rise within the NDP, belonging to the generation of young and successful Egyptians rallying around Gamal Mubarak. Mohieldin co-chaired the NDP's Economic Committee, becoming one of the strongest critics of the 'illiberal policies' carried out by the Eteif cabinet, and waging a battle that led to the dismissal of the cabinet and the appointment of a new one with Nazif as prime minister and Mohieldin himself heading the newly created Ministry of Investment. Though older and never directly involved in Egyptian politics, Farouk El-Okdah shares the same educational background, having been trained as an economist in the US, where he received his PhD from the University of Pennsylvania in 1983. He worked for more than a

¹²⁷ In these elections, Boutros Ghali was forced to run in a district other than his own against a strong opposition candidate, forcing him to the second-round to confirm his seat in the People's Assembly. In an interview with Oliver Schlumberger, an advisor close to the president said: 'His plans for reform come too early for Egypt. So we had to show him: "we can kill you like we made you"' (2004: 121).

¹²⁸ In his bestselling novel *The Yacoubian Building*, Alaa Al Aswany provides a very vivid description of the elitism of FEPS (Faculty of Economics and Political Science) students: 'For some reason, the Faculty of Economics and Political Science of Cairo University is associated in people's minds with affluence and chic. Its students, if asked which faculty they are in, are accustomed to reply: "Economics and Political Science" in a complacent, confident, and nonchalant way (as though saying, "Yes, indeed. We are, as you can see, the tops")' (2007: 89).

decade for the Bank of New York before returning to Egypt in the late 1990s to head the first financial leasing company in the country and then the largest state-owned bank, the National Bank of Egypt (EIU 2003: 21-2).

Whereas these elements may help us understand how neoliberalism was entrenched in Egyptian financial policymaking, it is necessary to resort to the analysis of informal mechanisms to grasp how this process was hybridised in such a way as to produce a reorganisation of authoritarian rule. In particular, three channels were very important in this respect. Firstly, non-transparent lending practices clearly survived reforms, with privatisations and joint-venture divestitures actually worsening the problem of credit concentration. In 2006, about 51 per cent of total credit extended to the private sector went to only 0.19 per cent of clients (World Bank 2008b: 26). All sorts of banks preferred to lend to the few large corporations, with thirty of them accounting for about 40 per cent of the country's credit supply (Osman 2010: 115-6). For public sector banks, lending to large businesses without too stringent conditions had always been a good way to allow the regime to maintain cooperative relations with the local business class. In the case of private sector banks, the same sort of practices developed out of both emulation and links between bank and business ownership. Finally, for foreign banks active in Egypt, lending to well-known businesses minimised the risks within an environment whose inner mechanisms still appeared somewhat obscure. Overall, practices of 'cream skimming' allowed the perpetuation of old preferential relations within a banking sector that was increasingly neoliberalised.¹²⁹

Secondly, the problem of NPLs is a logical consequence of easy and unscrutinised lending, as lending without any conditions or without any prior risk assessment obviously carries a bigger risk of debtor default. Under Morsi, the government carried an aggressive campaign in this respect, with NPLs as a share of total gross loans decreasing from 24 to 15 per cent between 2004 and 2008 (World Bank 2010a). This reduction was achieved by adopting a more flexible approach to debt settlement, managed by a special unit within CBE allowing banks and debtors to reach deals without going to court. Whereas this may appear as a sensible approach, as it allows to improve banking sector performance without overburdening the judiciary, it also led to a further lack of transparency that

¹²⁹ 'Cream skimming' defines the business practices of a company that provides a given product or service only to the high-value or low-cost customers.

benefitted large debtors, more often than not corresponding to large businesses (Roll 2010: 357-8). Thus, this procedure allowed the government to win the praise of IFIs for its efforts in eliminating NPLs while at the same time preserving and indeed reinforcing, the close ties between the regime and large businesses.

Lastly, whereas it is true that the increasing importance of foreign banks has the potential of boosting competition in the banking sector as a whole, due to the better services foreign banks tend to provide (World Bank 2008b), it is important not to lose sight on the ways in which these banks entered into the Egyptian market. For example, the entry of Crédit Agricole Egypt was made possible only through the alliance with MMID (Mansour and Meghraby Investment and Development), the joint investment vehicle created by the already mentioned Mansour and Meghraby families to extend their presence from industry and agriculture into finance as well (Roll 2010: 359).

These informal barriers to entry were even more evident in the capital market, dominated by a handful of Egyptian business groups. In this case, regime and business elite found a balance in which the stock exchange performed well enough to be profitable for the big business groups, but at the same time kept potential newcomers out. By looking at the ownership structure of companies listed in the main stock exchange index (EGX-30), one can fully grasp how neoliberal reforms in the financial sector produced an extraordinary concentration of power in the hands of very few business groups (see Table 4.1). Most importantly, these business groups all had strong ties to the regime dating back to the *infitah* period, with the partial exception of Ahmed Ezz, whose rise has been discussed earlier.

Table 4.1 – Main business groups at EGX

<i>Company</i>	<i>Controlling shareholder</i>	<i>Market capitalisation (LE mn, 2008)</i>	<i>AmCham Top Ten (2009)</i>	<i>EGX 30 weight (% , July 2010)</i>
Orascom Construction Industries	Sawiris	30,145	1	18.59
Orascom Telecom Holding	Sawiris	27,396	2	12.69
TMG Holding	Talaat Moustafa	6,212	6	6.47
Egyptian Company for Mobile Services (MobiNil)	Sawiris	14,686	3	4.23
Ezz Steel	Ezz	5,406	8	3.37
El Sewedy Cables	Sewedy	10,029	5	2.91
Palm Hills Development Company	Mansour, Meghraby	2,870	X	1.69
Egyptian for Tourism Resort	Kamel	2,017	X	0.89
Orascom Hotels Holding	Sawiris	1,809	X	Not included
Oriental Weavers Carpet Company	Khamis	1,738	X	Not included
<i>Total</i>	<i>7 families</i>	<i>102,307 21.66%</i>	<i>6/10</i>	<i>50.84</i>

Sources: EGX 2008 and 2010; AmCham 2010.

Hence, also in finance it is possible to see how neoliberal policies were combined with the reorganisation of authoritarian rule. In particular, the institutionalisation of neoliberalism is visible in the empowerment of the ministries in closer contact with IFIs, and more sympathetic to their demands. It can also be seen in the reshaping of the CBE's role following the example of already neoliberalised financial systems in Western Europe and North America. Lastly, it emerges from the rise of technocrats trained in US and UK universities relying on the neoclassical orthodoxy. At the same time, the technocratisation of financial policy-making was accompanied by the survival of old practices such as preferential access to credit for large businesses, the exploitation of new mechanisms such as NPLs settlement procedures again to the advantage of large companies, and the survival of informal barriers to entry in both the banking sector and the capital market, allowing wealth concentration in the hands of a very restricted group. Accumulation of wealth swiftly translated also in accumulation of political power, with large entrepreneurs becoming ever more important within the ruling bloc.

Thus, it appears that in all the three sectors under consideration the penetration of neoliberalism led to significant political adjustments, which changed the balance of power within the ruling bloc but not its composition nor its support for authoritarian rule. In agriculture, this took the form of state withdrawal filled in by members of the ruling bloc, still fundamentally accountable to the regime only. In the manufacturing sector, the institutionalisation of neoliberalism saw an increased influence of businessmen in policy-making, either through direct participation in politics or through informal pressures, hence with a retreat of the state leading to predatory practices on the part of the private sector component of the ruling bloc. In finance, neoliberalisation led to a decreased importance of the state in terms of bank ownership, with its main functions being exercised by technocrats with sound neoliberal credentials. In this sector, relations within the ruling bloc were rearranged through the persistence of informal practices allowing large business groups to increase their power economically and eventually also to become more relevant in political terms. Interestingly, the business groups that emerged as winners of the neoliberal turn were, with minor exceptions, the same that benefitted from Sadat's *infitah* in the 1970s.

4.3. Social structures, rulers and regime change: comparing theories

In Section 2.2 we have seen how changes in the economic sphere are considered to affect the prospect for political change from three different perspectives. This section assesses the value of the accounts provided by modernisation theory and by approaches focusing on rent-seeking elites in accounting for the ways political agency reacted to changes in the economic structure. The main argument in this respect is that whilst modernisation theory assumes too direct a link between a change in the capital accumulation regime and a change in the political regime, accounts focusing on elite behaviour – by looking exclusively at powerful actors – miss actions and reactions of social groups not belonging to such elite, and more generally ignore wider shifts in the overall class structure. I then show the added value of a Gramscian approach based on articulation. More specifically, I argue that neoliberal reforms produced a shift in class relations that acted as a determination in the first instance on the feasible political strategies. The relative autonomy of the political could still be seen in the articulation of neoliberalism with a reconfiguration of power relations within the ruling bloc aimed at preserving authoritarian rule.

4.3.1. *The case of modernisation theory: middle class or capitalist oligarchy?*

In every causal relation linking two structures – in this case the economic and the political regime – there must be some form of agency allowing a given cause to produce a specified effect.¹³⁰ In the case of modernisation theory, economic reforms characterised by liberalisations and privatisations are supposed to lead to the emergence of a strong and autonomous middle class which, in the very light of its strength and autonomy, has an interest in pushing towards the opening of the political regime too. Thus, there is a clear causal chain going from economic opening to the growth of the middle class to this pushing for and eventually forcing also a political opening.

Modernisation theory is certainly correct in arguing that changes in the economic structure do have an impact on the political sphere, and compel political actors to do something about those modifications. It is also correct to maintain that social groups empowered by reforms will start to talk louder and demand more from an autocratic regime. In the Egyptian case, this emerges clearly from the increased power of landlords with respect to agricultural policies, entrepreneurs with respect to industrial policies, and bankers and traders with respect to financial sector reform. Being the main beneficiaries of reforms, they muster an amount of resources that often translates in greater organisational power – either institutionally or informally – putting them in a position to influence political decisions. This is all the more clear when they become part of those very institutions taking decisions, either as MPs or as ministers.

However, modernisation theory is much less convincing when it provides the social profile of those expected to be the beneficiaries of liberalising and privatising reforms in authoritarian regimes. In other words, whereas there is a link between change in the accumulation regime and change in the social structure, modernisation theory gets the direction of this link wrong. The evidence provided in Sections 3.3 and 4.2 shows very clearly that neoliberal reforms in Egypt did not change the stratification of the social structure ‘from an elongated pyramid, with a large lower-class base, to a diamond with a growing middle class’, as Lipset suggested (1959: 83). Rather, the opposite appears to be the case, with the establishment of a neoliberal regime of capital accumulation leading to the

¹³⁰ Or at least: this should happen in social science if one is to avoid falling into the trap of structural determinism.

emergence of a capitalist oligarchy and the weakening of that middle class at the core of the explanation provided by modernisation theory.

The rise of the capitalist oligarchy becomes glaring as soon as one thinks that the main business groups dominating the banking sector were usually the same with a prominent position in the capital market, and more often than not had a base in the productive economy through the ownership of privatised firms (Ahmed Ezz in steel), licenses granted by the government during the liberalisation of certain sectors (Sawiris in mobile telephony), strategies exploiting the withdrawal of the public sector from some areas (Mansour and Meghraby in agriculture), or simply investments in sectors where short-term speculation was more profitable (again Mansour and Meghraby but also Bahgat and Kamel in construction and tourism). The rise of this extremely thin stratum, quantified by Mitchell in about two dozen business groups (2002: 282), was guaranteed exactly by the fact that they had strong interests across the board, and the combination of wealth and connections allowed them to get first in every single reformed sector. The cases of Mansour and Meghraby and of Rashid discussed earlier are illustrative in this respect.

This misjudgement of the direction of social change, and thus of the consequences of neoliberalism, pushes modernisation theory to overestimate the prospects of regime change stemming from a change in the economic regime. In other words, if their prediction of a strengthening of the middle class simply did not take place once reforms were implemented, then the further link leading from the middle class to an opening of the political regime cannot even be examined. More worryingly, modernisation theory is not of much help in explaining how modifications within the ruling bloc may take place without threatening the nature of the political regime as such. In this respect, the Egyptian case shows that economic reforms characterised by liberalisation and privatisation might well be related to intra-elite adjustments without any opening of the political regime. And this is something that modernisation theory is unable to account for.

4.3.2. *The case of predatory elites: all in the hands of the rulers*

Authors focusing on the rent-seeking behaviour of elites tend to be rather dismissive of the potential for political regime change deriving from economic reforms, however wide-ranging these may be. Rather, their argument suggests that new economic policies do not have a systemic impact on the political regime, but at

best force well-positioned actors to adapt their behaviour in such a way that they can maintain and whenever possible consolidate their privileged position within the reformed system.

The significant room for manoeuvre enjoyed by political agents in adapting to structural pressures and to a good extent in shaping final outcomes is certainly what these approaches are best able to account for. In particular, their insistence on the relevance of positional rent is validated by the unfolding of the reform process in Egypt. In particular, a great wealth of evidence seems to support the assertion that a privileged position at the outset of the reform process will most likely translate into belonging to the list of beneficiaries. The correlation between being a member of the *infatih* bourgeoisie in 1990 and entering into the business oligarchy characterising the Egyptian political economy in 2010 appears quite neat. Also those that did not belong to 'Sadat's bourgeoisie' and yet made it into the ruling bloc over the past two decades did so by forging alliances with members of the regime. The rise of Rashid Mohammed Rashid and Ahmed Ezz and their friendship with Gamal Mubarak are arguably the best case in point. In Egypt, politics is a key factor in determining what is the effect of economic reforms on your position in the social structure, and accounts based on rent-seeking elites are able to account for this aspect remarkably well.

Yet, accounts focusing on the rent-seeking behaviour characterising elites, and even more so elites in authoritarian regimes, do suffer from at least two shortcomings. On the one hand, it appears that the concept of rent applies across the board over the entire ruling bloc. In some cases, it is the entire category of rulers to be considered as predatory (Levi 1988). Following from this, it becomes difficult to understand how relations *within* the ruling bloc have evolved over the reform period. More specifically, these approaches are somewhat indeterminate when it comes to evaluating which groups are most empowered and which are most weakened by reforms. In the Egyptian case, these approaches tend to overestimate the role of intra-elite alliances between potential winners and losers acting as a sort of veto that either stifles or derails the reform impetus (Kienle 2001 and 2003; Wurzel 2009). Yet, here we have seen how in fact reforms produced intra-elite *adjustments* more than *alliances*. These adjustments, albeit not univocal, point towards a strengthening of the component related to private capital *vis-à-vis* the army and the overall public sector.

On the other hand, the exclusive focus on well-placed actors leads to a dismissive conclusion along the lines of ‘nothing really changed’ that is profoundly misleading. It is misleading because focusing on one set of actors only – elites – obliterates how reforms affected actors who are not taken into account. Thus, the weakening of lower social groups, such as the peasantry and the working class, and those involved in the ever-larger informal economy, together with its potential repercussions on the stability of the political regime, is usually neglected, as is the increasing distance between the 5 per cent of the population holding more than 40 per cent of the country’s wealth (Osman 2010: 115) and the increasingly pauperised majority of the Egyptian population. The substantial immobility suggested by elite-centred approaches also ignores wider shifts in the class structure that are suggested by modernisation theory, and that are indeed real in the Egyptian case. This is where the approach developed in this study becomes most helpful.

4.3.3. *The Gramscian case: structural change meets political logic*

Focusing on the repercussions of the shift towards a neoliberal accumulation regime on the social structure, and more specifically on social relations defined in terms of class, allows to understand much of what has happened in Egypt over the past two decades. Reference to the impact on social classes allows us to single out the groups benefiting more from the reform process. In particular, we can see how neoliberal policies have empowered private owners of capital in its various forms and weakened classes relying exclusively on positional rent, such as the army and the wider bureaucracy, and lower classes selling their labour power, in the form of industrial workers, peasants and informal labourers. Within the capitalist class, what we see is not a clear-cut affirmation of financial capital, as has happened in other cases of neoliberalised economies,¹³¹ but rather an ever-greater integration between the traditional forms of capital: commercial, industrial and banking.

These changes in the class structure suggest that there might be a relation between change in the economic regime and change in the political regime, but that this relation is not a univocal one. This contrasts both with what we have seen in modernisation theory, where a positive correlation between opening of the

¹³¹ The volume edited by Epstein on *Financialization and the World Economy* (2005) analyses the rise of financial capital brought about by neoliberal reforms in countries as diverse as the US, Mexico, Turkey and South Korea.

economic and of the political regime is posited, and in rent-based approaches, which argue against the existence of any such link. The Gramscian account developed here, on the other hand, suggests that a new accumulation regime brings with itself a constellation of conflicting pressures, some pushing towards change in the political regime and others allowing its reorganisation without any change in its authoritarian nature. To be more precise, the shift towards neoliberalism produced both changes *within* the regime and changes *between* the regime and the wider society. Yet, these changes point in very different directions.

With respect to the changing conditions within the regime, the empirical section showed how the local capitalist class was empowered *vis-à-vis* purely rent-based components of the ruling bloc.¹³² What is most interesting though is that despite becoming more powerful, the Egyptian bourgeoisie did not become substantially more independent from the regime. This is witnessed by the way in which access to newly liberalised and privatised markets was granted to capital owners. In particular, we have seen how prior position in the political economy and crony relations with the regime constituted two fundamental conditions to benefit from the shift towards a neoliberal accumulation regime.

The lack of autonomy of the Egyptian capitalist class can also be measured referring to a set of parameters proposed by Luciani for evaluating the independence of the national bourgeoisie from its – usually authoritarian – regime in the Middle East (2007: 287-8, ft. 9). Luciani suggests that five indicators should be taken into consideration: accumulated wealth, access to global finance and know-how, competitiveness and profitability of enterprises, independence from government protection,¹³³ and sales to market as opposed to sales to government. The Egyptian capitalist class scores extremely high on the first indicator and very high on the second. On the third indicator, whilst large enterprises were certainly profitable, it is hard to maintain that this was due to their competitiveness, particularly considering the conditions of quasi-monopoly in which they often operated. With respect to independence of the local bourgeoisie from government, this was far from being achieved, and it is more evident with respect to the

¹³² As mentioned in the introduction, we should not discount what Hanaa Kheir-el-Din defines as ‘military production for civilian purposes’ (Interview with Hanaa Kheir-el-Din, 4 May 2010, Cairo).

¹³³ Luciani mentions government subsidies, but considering the forms in which government appears to be able to support and/or control the local capitalist class, I consider the broader concept of protection to be more appropriate than an exclusive focus on subsidies.

importance of political power to accumulate wealth than to the decreasing role of the state as a prominent buyer of goods and services from the private sector.

If these were the conditions of the Egyptian capitalist elite, its most rational choice might actually be to improve its relative position within the existing regime, particularly if one takes into consideration the elephant in the room of the parallel military economy. After all, political opening might mean that groups currently excluded from the ruling bloc would get a voice in the decision-making process, with the risk of endangering the privileged position of the entrepreneurial elite within the reformed political economy. Thus, it would seem that in the Egyptian case intra-elite relations were not conducive to meaningful political change.

The advantage of taking a Marxist stance is that changes in the social structure are taken in their totality, thus forcing the researcher to look at how changes in the accumulation regime affect also the social classes excluded from the ruling bloc. Enough evidence has hopefully been provided with respect to increasing inequality but also more generally for escalating repression in agriculture and protests in industry, both important indicators of the increasing exclusion of lower classes. More interestingly, also social groups between the elites and the poor, what Leonard Binder referred to as the 'second stratum' (1978), appear on the whole to have been weakened by neoliberal reforms. Public sector employees, constituting the majority of the Egyptian middle class, were squeezed significantly, with their real wages substantially deteriorating *vis-à-vis* those of private sector employees (Said 2002 and 2009).¹³⁴ On the other hand, it appears that at least in relative terms private sector employees and cadres benefited from reforms, and this in and of itself should make them supportive of the regime and its policies. Lastly, although there is a lack of data in this respect, it seems reasonable to hypothesise that self-employed professionals were somehow able to hold their ground in the past two decades, leaving them with enough resources, often earned outside of the regime circuit and its cronies, to be mobilised in the political sphere.

In sum, though not affecting all social groups in the same way, economic reforms squeezed the Egyptian middle class as a whole, weakening its larger

¹³⁴ The worsening of the condition of public sector employees can easily be backed with reference to anecdotal evidence: take a cab in Cairo at night, have a chat with the driver, and you will soon discover that during daytime he works as a school teacher or as a land registry officer. More generally, moonlighting and work in the informal economy are becoming ever more common strategies to cope with financial strains (El-Mahdi 2002; Moktar and Wahba 2002).

segment (public sector employees), slightly improving the position of employees in large private sector companies, and leaving substantially unaltered the position of self-employed professionals. If we add to this the worsening conditions of the peasantry and the working class, one might start to wonder whether the threats for regime survival might originate not within the ruling bloc but outside of it. And not from improved conditions, but rather from desperation.

4.4. Articulation I: the emergence of neoliberal authoritarianism

The mechanisms characterising the interaction between the economic and the political allow us to see the first form of determination in the first instance, on the part of the economic, and the following relative autonomy of the political. More specifically, we have seen how an exercise of political agency – i.e. the decision to undertake far-reaching economic reforms along a neoliberal path – produced structural change in terms of a shift towards a new accumulation regime and modifications in the class structure. Structural change means that the boundaries within which political action takes place are redefined substantially, forcing agency to adapt to these changed conditions. This is what I refer to as determination in the first instance by the economic structure. Within these newly defined boundaries, characterised by a substantially weakened role of the state in production and management, the relative autonomy of the political manifests itself in the measure in which actors well placed in the political sphere attempt to retain control over the changing economic structure by adapting old mechanisms and developing new ones. More specifically, the relative autonomy of the political emerged with reference to agriculture in the privatisation of what once were state functions, but which are now exercised by groups or families still under the control of the regime. In industry, the relative autonomy of the political was clear in the capture of institutional structures on the part of the emerging capitalist elite, ever more powerful within the ruling bloc, in order to direct the impact of structural change both in terms of wealth and power accumulation. In finance, it manifested itself in the decision to put technocrats in charge while attempting to preserve practices allowing the regime to keep under check the rising business elite.

This is exactly how articulation works. After all, articulatory practices often aim at relating seemingly contradictory features. This is even more true in pre-capitalist and newly capitalist societies, where the political often enjoys a higher

degree of autonomy from the class structure, leaving room for the survival of old practices within a new accumulation regime. As Ayubi put it, '[i]t is a distinct advantage of the articulation method that it would enable us to conceive of a situation where the "technical" arrangements most typical of a particular mode of production may be articulated with the cultural (and the political) aspects more typical of another mode (and therefore possibly of another "age")' (1995: 29). This also applies within capitalism, and thus with the shift from a regime of capital accumulation to another. And this is what we saw in the Egyptian case: a move from an *étatist* towards a neoliberal accumulation regime, producing substantial modifications in the relations between class forces, but still being articulated by political agents with pre-existing practices, and in this way being somehow transformed.

This process of hybridisation of neoliberalism is not to be necessarily seen as a distortion of its original intentions. Indeed, the Egyptian case displays most of the typical symptoms of neoliberalised economies. Among these, the most relevant are the rise in inequality, the increasing polarisation of the social structure with the emergence of a 'super-rich' class and the weakening of middle and lower classes, and the rise of financial capital that rather than becoming dominant works as the cement linking together all the different forms of capital. These typical effects of neoliberalism were articulated with the peculiar characteristics of the Egyptian political economy, from its dependent position in the global economy to the sustained dominance of domestic over foreign capital to the persistence of practices of patronage and corruption, with the result of the emergence of a hybrid form of neoliberalism.

As mentioned above, within this larger picture intra-elite adjustments are best seen as agential strategies in order to adapt to changes brought about by the neoliberal turn. Yet, whereas the rearrangement of power relations within the ruling bloc under an informal pact guaranteed by president Mubarak himself might be able to defuse tensions within the ruling bloc, it did little to tackle the other set of pressures produced by neoliberalism, between the regime and society at large. And we have also suggested that these unintended – or certainly underestimated – consequences of structural change might be eroding the basis of authoritarian rule.

Here is where hegemony comes to the fore. To be successful, hegemony has by definition to be encompassing, including social groups beyond the ruling bloc. In

other words, it is the task of the latter to develop a 'conception of the world' of which most groups feel part of, regardless of their position in society. This also means that a promise and to a degree a delivery of improvements to the living conditions of all classes must take place, particularly in a state whose legitimacy is not based on elections, but rather on economic performance and on the distribution of its benefits to most strata in society. As we said in Chapter 1, hegemony is also and first of all an agential phenomenon linked to social relations of production. Thus, if the latter change, and change in such a comprehensive way as it happened with the neoliberal turn in Egypt, then the hegemonic project too would need to take into consideration these changes in their totality to preserve the stability of the political order. On the contrary, the Egyptian regime appeared concerned exclusively with intra-regime fixes.

4.5. Conclusion

In analysing the impact of economic reforms on the political system, we have seen how things first started in agriculture, with state withdrawal and liberalisation of prices and inputs. It then followed in industry, again with liberalisation of trade and prices and then privatisation. At the end of the first phase of the reform process (1991-98), the period of stasis was also the phase in which businessmen, under the leadership of Gamal Mubarak, quintessential link between old regime and 'new' business, became significantly more powerful in the political arena, first joining the NDP, then becoming MPs, and finally working as cabinet ministers. This change in the political arena was fundamental in allowing the financial sector reform programme to get under way and thus neoliberalise the banking and capital market sectors.

In attempting to understand what has been the impact of these economic changes on the political regime, we have firstly looked in the direction of mainstream approaches. Modernisation theory is valuable in the measure in which it maintains that changes in the economic structure will lead to social changes as well. However, it gets the direction of those changes wrong, and thus its prediction that changes in the economic regime will lead to change in the political regime does not hold. Certainly not in the Egyptian case. Approaches based on rent-seeking elites are correct in saying that well-positioned actors will do everything in their power to keep their privileged position in the reformed system. However, elites are

not the only actors that matter, even though in authoritarian regimes it might seem so. Thus, their conclusion that no substantial political change will follow from economic change does not hold either.

The Gramscian approach developed here is valuable in that it is both holistic and nuanced. Holistic in that it forces us to look at the impact of neoliberalism on society as a whole, thus also focusing on lower classes. Nuanced because it prevents from reaching a definite conclusion, and rather points towards the presence of conflicting pressures, some working towards regime stabilisation under new conditions and some undermining it. These were the conditions of neoliberal authoritarianism in Egypt in 2010. Intra-regime adjustments made it possible to keep the regime stable on the inside, but devastating inequality and impoverishment seemed to suggest that regime stability might be threatened from outside the regime itself.

Chapter 5

HISTORY OF A PASSIVE REVOLUTION:

THE ARTICULATION OF INTERNATIONAL AND NATIONAL SCALE

5.1. Introduction

In Chapter 3 we discussed three of the features characterising the Egyptian political economy in 1990. Two of them are particularly relevant with respect to the position and relation of Egypt with the global political economy. The first one is the persistence of a dependent economic structure. The second is the relatively minor role played by foreign private capital in comparison with other countries usually considered as dependent. The attempt to spatially locate the sources of the structural change produced by neoliberal reforms must start from these two elements, and from two implications deriving from them.

The first one is mostly theoretical, and it refers to how patterns of uneven and combined development characterising the unfolding and evolution of capitalist relations of production on a worldwide scale interact with the dependent structure of the Egyptian economy. In this respect, it is safe to say that the increasing integration of the Egyptian into the global political economy will produce a qualitative change in the relation between the two scales. On the one hand, we could see Egypt taking advantage of the opportunities created by the 'whip of external necessity' and the 'privilege of historic backwardness', as Trotsky called them, in order to leapfrog outside of its position of dependence, skipping developmental stages and eventually outstripping early developers. This has already happened in history, for example with the United States and Germany overtaking Britain, and something similar seems to be happening currently with respect to China. On the other hand, increased integration might lead to a debasement of the Egyptian economy, with the interaction between international and national scale giving way to a strengthening of dependency under new conditions. These new conditions would be the result of the articulation of previous economic, political and ideological features typical of *étatisme* with the neoliberal

ones prevalent on the international scale. It is important not to confuse this second alternative with the 'development of underdevelopment' thesis. Focusing exclusively on trade, the latter predicts that gradually worsening terms of trade will produce a deepening of dependency under the same basic conditions. U&CD, on the other hand, allows us to add financial flows – assistance, lending and investment – to commercial ones, showing how the interaction of these variables leads to a reproduction of dependency under conditions which are qualitatively different. In other words, if one accepts U&CD as the fundamental mechanism driving inter-societal relations under capitalism, ever greater integration will always produce a qualitative change in the workings of any given political economy.

The second implication is of methodological relevance and orients the empirical focus of this chapter. The limited amount of private capital flows into the Egyptian economy suggests that the first steps towards neoliberalisation must come from somewhere else, and more specifically from institutional dynamics. This is also consistent with the fact that in order to change an *étatist* accumulation regime, you need to deal with the actors in a dominant position within the existing system, and thus with the state, its institutions and the ruling bloc controlling them. This is the main reason why this chapter mostly focuses on the interaction between the Egyptian government and those institutions most representative of the imperatives developing on the international scale, ranging from international organisations such as the IMF and the World Bank to particularly influential donors such as the US and the EU. After all, the role of IFIs in promoting neoliberalism across borders is supported by an established literature, including mainstream, constructivist and critical IPE scholars.¹³⁵ In addition, in the specific Egyptian case the magnitude of the fiscal crisis of the late 1980s and the prospects of debt relief attached to successful reforms made the Egyptian government particularly sensitive to pressures from the Bretton Woods twins, and thus render even more appropriate the focus on institutional dynamics adopted here.

With these two considerations in mind, the chapter proceeds as follows. The first section focuses on the interaction between national and international

¹³⁵ In the mainstream IPE literature, an excellent example is *The Globalizers* by Ngairé Woods (2006). Among the constructivists, a very persuasive case with respect to the IMF is made in Chwieroth (2010). In critical IPE, the literature on IFIs-promotion of neoliberalism is nearly limitless. For a clear and succinct introduction from a broadly Gramscian perspective, see Peet (2003).

institutions in the three sectors under consideration, and suggests that interscalar relations have evolved over time, with the national scale gradually becoming more important as a nodal scale, and thus acquiring a greater degree of autonomy from the imperatives promoted by IFIs and the main donors. The following section interprets this core empirical finding in the light of the main existing approaches, based respectively on the transnational state thesis and on the more sceptical accounts expressed in some area studies, before addressing the same findings from the perspective of the Gramscian approach developed here. Lastly, the final section links back empirical findings to wider theoretical debates on the relation between globalising capital and national state, suggesting that what Egypt has experienced over the past two decades is best understood as a form of passive revolution.

5.2. Scales, institutions and economic change: empirical study

In the three sectors under consideration the international agents and their roles in the reform process vary greatly. A division of labour between IMF and World Bank has always been in place, with the former being in charge of evaluating the evolution of macroeconomic indicators and exchange rates and the latter monitoring structural adjustment (Weiss and Wurzel 1998: 25). However, particularly during the stabilisation phase, encroachments on the part of the IMF within areas formally under the supervision of the World Bank, such as privatisation and liberalisation, were far from unusual. Thus, whereas the IMF had a central role in the sectors particularly affected by privatisation, i.e.: manufacturing and to a lesser extent finance, and with respect to exchange rate management, it only has marginal relevance with respect to agriculture, where the World Bank was central in promoting a specific reform path rather than another. Two donors are taken into consideration in one of the sectors or sub-sectors under consideration: USAID because of its relevance in agriculture, and the EU for its crucial role in banking sector regulation.

This section discusses relations between international institutions and the Egyptian government during the reform process. In particular, changes are evaluated with reference to two dimensions. On the one hand, it ascertains the level of cooperation between external and domestic institutions. When were reforms undertaken following a cooperative pattern? When were they imposed through coercion? In which cases did a confrontational approach prevent reforms from being

implemented altogether? On the other hand, it is equally important to evaluate who were the leaders and who the followers in the various phases of the reform process. By referring to these two dimensions, this section discusses the role of the international scale in pushing neoliberal solutions on the Egyptian government during the first phase of reforms, while at the same time highlighting the role of agency on the national scale during the second wave of reforms between 2004 and 2008.

5.2.1. *Agriculture: from 'one-size-fits-all' to the Egyptian way to neoliberalism*

Other than being a forerunner, as discussed in Chapter 3, the agricultural sector was also an anomaly in the Egyptian reform process. Contrary to the other two sectors under consideration, reforms in agriculture were relatively untroubled, with relations between IFIs, donors and government mostly following a cooperative pattern. This continuity on one of the two dimensions under consideration makes the identification of shifts in the relations between national and international institutions harder to detect, as coercion – arguably the most visible indicator – was not a significant feature of agricultural reforms. Despite this, it is still possible to see how leadership in the reform process was exerted by the World Bank and USAID during a first phase (1986-1995), passing the during a second phase (from 1995 on) in the hands of the Egyptian government, following a new social and economic crisis caused by those very reforms implemented in the previous decade.

Though characterised by the central role of Yusuf Wali,¹³⁶ the first phase of structural reforms in agriculture was clearly led by the World Bank and USAID. In particular, these two institutions proved decisive in three different ways, encompassing both material and ideational forms of influence. Firstly, the World Bank and USAID provided the framing for the agricultural crisis, and thus a clear characterisation of the problems affecting the sector. More specifically, the whole crisis was explained referring constantly to the state-market dichotomy, with state intervention in the sector considered responsible for distorting prices, stifling innovation and ultimately thwarting efficiency. On the first aspect, the Bank's *Agricultural Strategy for the 1990s* was very eloquent, praising the government's

¹³⁶ Wali was both minister of agriculture and deputy prime minister between 1986 and 2004, thus being effectively one of the most powerful policy-makers in the whole Egyptian scene after the president himself.

decision 'to fully liberalise the agricultural sector, and to remove all controls and Government interference in commodity pricing within the next two to three years' (1993: 14). Similar remarks are found on the following page, with respect to the removal of subsidies on fertilisers and pesticides and concomitant state divestiture. The lack of technological innovation as well is attributed to the state, this time in the form of 'responsibilities dispersed among many institutions, and not effectively coordinated, leading to duplication of efforts' and to 'the absence of a widely accessible data base' (Ibid: 15). From these two aspects it is not too difficult to extend charges to the state to wider issues of economic efficiency. As USAID put it: 'Public enterprises are generally inefficient, are usually subsidised by the Treasury and, therefore, unfairly compete with private investors. Public institutions are characterised by redundant employment, poor management practices, and absence of appropriate employee incentives. Public investment lacks suitable economic criteria. Food subsidies distort consumer decisions and contribute to false price signals to producers' (USAID 1992: 7).

Secondly, the World Bank and USAID suggested a set of solutions derived from this framing of the crisis. If you characterise problems in the sector around the state-market dichotomy, with the former being invariably the problem and the second the solution, then the rationale for reforms becomes straightforward: weaken the state and empower the market. Privatisation was meant to achieve the first objective,¹³⁷ liberalisation towards export-oriented agriculture the second. In the words of a long-serving USAID official, public sector withdrawal from input provision would make sure that the state only thinks of 'providing the legal and regulatory framework necessary for the private sector and to the support for market driven trade and investment' (Lewis 2009: 167). The function of wide-ranging liberalisation was once again best exemplified by USAID (1992: 15):

Freeing prices will encourage farmers, buyers and processors of agricultural commodities to invest in productivity enhancing capital and technological improvements, and over time should shift the sector towards the production of commodities for which Egypt has a comparative advantage. Increases in income

¹³⁷ It is important to remind here that land reforms under Nasser did not dismantle private ownership of land, but only limited the maximum extension of individual landholdings. Thus, when we talk of privatisation in agriculture we are referring to the state withdrawing not from direct production, where its role was already limited, but rather from the provision of inputs.

in the agricultural sector will provide a significant and broad-based contribution to the enhancement of Egypt's long-term prosperity.

There is no need to discuss at length here how deeply problematic both the framing and the policy guidelines proposed were.¹³⁸

Lastly, the World Bank and USAID provided the bulk of the financial resources needed to carry out reforms, with the former resorting to loans and the latter to assistance loans. Structural adjustment funds by the World Bank have been disbursed in the amount of \$300 million between 1991 and 1994, with the entry regarding rural policies and institutions amounting to 16 per cent of the total.¹³⁹ On the other hand, USAID financed two specific agricultural projects: the Agricultural Production and Credit Project running from 1986 to 1995 with assistance amounting to \$309 million, and the Agricultural Policy Reform Programme covering the following decade and amounting to \$245 million (Abt Associates 2002: 1). It is not surprising that, in times of serious economic distress, the sheer amount of resources at stake and the additional promise of debt forgiveness in case of successful reforms, proved enough to entice the government to adopt far-reaching measures.

This first phase of the reform process ended with a crisis provoked by liberalisation in the provision of fertilisers, which highlighted some of the weaknesses of the model proposed by World Bank and USAID. Until the mid-1980s, both inputs and fertilisers were provided at a subsidised price by PBDAC. In a way the reader should by now be familiar with, the dismantlement of public sector monopoly led to the emergence of an oligopoly controlled by three companies, with a fourfold increase in local price between 1994 and 1996 coupled with the incentive

¹³⁸ Two main arguments have been advanced in this respect. Firstly, that the state-market dichotomy forgets that the state is only one of the factors affecting the constitution of markets and the form that they take, and in the case of Egyptian agriculture is not even the most important one (Saunders and Mehanna 1986). Secondly, that the IFIs approach tends to conceal that the market itself is an institution, and that market relations are power relations, with the deriving asymmetries. For example, relations in the marketplace are certainly shaped by availability of information, but this in Egyptian agriculture is far from the perfection assumed in neoclassical models. It is not a case that the marketisation of agriculture did not lead to the disappearance of rent, but rather to its re-organisation. As noticed by other scholars with reference to Sub-Saharan Africa, '[r]eplacing exploitative forms of state regulation by a regime of non-regulation allows the state bourgeoisie to legally "privatise" its interests without transforming its essentially parasitic form of economic operation' (Gibbon et al. 1993: 147).

¹³⁹ The repayment of the overall loan was subject to a five-year grace period after which a variable interest rate would be applied, set at 7.73 per cent at the signing of the agreement (Weiss and Wurzel 1998: 47-48).

for producers to export rather than sell at home because of a sizeable price differential.¹⁴⁰ Following from this, acute supply difficulties in 1994 and 1995 forced the Principal Bank to restart public sector provision of fertilisers.

This crisis was a significant turning point in the balance of power between the Egyptian government and both the World Bank and USAID with respect to agriculture. Without putting into question the cooperative relations of the previous decade, the government was allowed to pursue its own brand of reforms, with external agencies lowering their profile and working more as technical advisors in support of the government. The reaction of international institutions to this new state of affairs was telling. Whereas in the 1990s the liberalisation of input provision was suggested as one of the most urgent measures to be taken to reform agriculture, the World Bank's view on this issue in 2001 had changed substantially: liberalisation in this subsector was turned into a long-term objective, but in the short-term the co-existence of public provision with private oligopolists was accepted (World Bank 2001: 16). More interestingly, the Egyptian government did not mention this issue neither in the fifth nor in the sixth five-year plan (Ministry of Planning 2002: 98-101; 2007: 93-100), leading to a gradual watering down of the hypothesis that fertiliser provision move entirely in the hands of the private sector as originally advocated by international agencies. And whereas the letter of what is written in the government's development plans should not be taken at face value, this should be an additional reason for paying lip service to the requests of World Bank and USAID rather than dropping the issue altogether.

This trend can also be illustrated with reference to the hard-line taken by the government in the full implementation of Law 96 of 1992. More than most other reforms carried out in the sector, Law 96 of 1992 was a genuinely Egyptian law, with external agencies suggesting a reform of land tenure, but playing a very minor role in the drafting and discussion of the law itself (Hinnebusch 1993: 21-2). Yet, the new tenure law was still moulded on neoliberal principles, and one of them in particular: the commodification of all factors of production (Harvey 2005: 160-1), and in this specific case of land and labour, and the state-sanctioned redistribution of assets in favour of the ruling classes. At the end of the transitional period, while entirely aware of the social and political costs of the full implementation of the law,

¹⁴⁰ As reported by Bush (1999: 68-9), export price of fertiliser was of LE800 per tonne compared with local price of LE450.

the government did not show much hesitation in allowing land takeover and the dispossession of tenants. Not much enthusiasm was shown on the part of international institutions in this respect, but no opposition either.¹⁴¹ The fact that the government proved willing to fully implement the tenure law and that international organisations gave them the chance to do so is indicative of a more proactive role for national institutions in driving agricultural reforms.

These two cases are telling of the evolution of agricultural reforms, and more specifically of the lopsided character of domesticated neoliberalism. More specifically, both the unevenness of liberalisation and the implementation of the new tenure law show a tendency on the part of the government to privilege the aspects of dispossession and exchange over the alleged objectives of state withdrawal and competition. The management of the crisis in fertiliser provision similarly suggests that whenever the state is needed for the market not to break down (as what was experienced was a clear case of market failure), it is allowed to step in even though this means constraining competition. In other words, capital accumulation seems to be the main priority for both national and international stakeholders: trade liberalisation and land dispossession are more functional to this task than the liberalisation of input provision, which can be sacrificed if social stability is perceived to be at stake.

5.2.2. *Industry: privatisation as a taboo, privatisation as a must-do*

The unfolding of reforms in the manufacturing sector is best understood if the two decades under consideration are split into three phases. The first one goes from 1991 to 1998 and encompasses macroeconomic stabilisation and the first wave of privatisations. The second phase covers the following five years (1999-2004) and represents a moment of stasis with respect to the reform process, but also one of great importance particularly because of the power struggle taking place on the national scale. The third period spans the remaining part of the second decade, from the moment when the Nazif cabinet took office in 2004 to 2010. While reforms regarding liberalisation of trade and prices are also considered, most of the attention here is focused on what Waterbury called 'the heart of the matter' (1992): public

¹⁴¹ Interview with Tarek Moursi, professor of economics at the Cairo University and expert in agricultural economics and quantitative analysis at the Information and Decision Support Center (IDSC), the government's think tank, Cairo, 29 April 2010.

sector reform, and more specifically privatisation. This is because privatisation was the most contentious point in negotiations in 1991 when Egypt sought help from IFIs, and the changing position of the government on this issue might tell us something valuable also about transformations in interscalar relations.

The first phase of the reform process saw IFIs leading the way with respect to the reforms to be implemented, with the Egyptian government being mostly reactive, either following the advice of IMF and World Bank or ignoring it. The perception of uncertainty and vulnerability that the fiscal crisis of the 1980s had produced in key Egyptian policy-makers inevitably increased the bargaining power of IFIs and international donors, particularly with respect to the conditions under which Egypt would be granted much needed hard currency and debt forgiveness. The steadiness and consistency with which trade liberalisation measures were implemented between 1991 and 1998 is a remarkable example of how the Egyptian government complied with some of the demands coming from international institutions (see Table 5.1). These reforms took in a first phase the form of a drastic reduction of items covered by import and export bans (1991-92), followed by a gradual reduction of the tariff range effected between 1993 and 1998 (see Table 5.1).

Table 5.1 - Trade liberalisation measures (1991-98)

1991	- Production coverage of import bans reduced from 35.6 to 33.3 per cent of tradable goods output - Number of products subject to export bans reduced from 20 to 4. - Number of products under quantitative annual export quota reduced from 17 to 4. - Production coverage of import bans reduced from 37.2 to 22.7 per cent.
1992	- Number of preferential tariff rates cut from 60 to 30. - 4 more items reduced from export bans list. - 32 preferences removed from tariff preference, with 29 remaining.
1993	- Tariff range reduced from 5-100 to 5-80 per cent.
1995	- Tariff range reduced to 5-70 per cent.
1996	- Tariff range reduced to 5-55 per cent.
1997	- Tariff range reduced to 5-50 per cent.
1998	- Tariff range reduced to 5-40 per cent.

Source: Abdel-Khalek 2001: 55-6.

When it came to the divestiture of state-owned assets, the position of the Egyptian government *vis-à-vis* the demands of IFIs changed over time from non-cooperative to merely compliant to enthusiastically committed. Already Law 203 of 1991, setting the guidelines for the restructuring and privatisation of SOEs, encountered great resistance in the People's Assembly, even though this was not enough to prevent its approval (Khattab 1999: 7-8). However, during the first years of stabilisation not much happened on the privatisation front, with the IMF repeatedly raising its concerns (EIU 1992; IMF 1993a). Government's inactivity also pushed the World Bank to extend its 1992/1993 Privatisation Programme until June 1994 to allow the government to achieve at least the minimum targets (Momani 2005: 48). The only significant step forward was the setting of parameters for privatisation, under the threat of the World Bank to withdraw the second tranche of structural adjustment loans (EIU 1993). Yet, these were only steps in the planning of privatisation rather than in its implementation, and despite the promises included in the 1993 Letter of Intent presented while applying for an Extended Fund Facility, 'the IMF were particularly disappointed with delays in the privatisation of state assets. Egypt was supposed to have sold 22 state-owned companies by the end of 1993, but had only sold three and wanted to reinterpret the term privatisation to include employee buyouts and partial sales' (Momani 2005: 55). And indeed privatisation, rent decontrol, liberalisation of insurance laws and currency devaluation were the measures not implemented by the government which led the IMF not to release the final tranche of the 1993 Extended Fund Facility (Ibid: 63).

At the end of structural adjustment things changed rather dramatically, with the Minister of Planning Atef Ebeid pledging the privatisation of 100 companies that were supposed to bring \$2.9 billion into the state coffer by the end of 1996. The IMF staff was truly impressed that the list of companies to be privatised was even more comprehensive than its own demands, signalling a real commitment towards public sector reform (Butter 1996: 3). In the five months before the conclusion of the 1996 Stand-by Arrangement, the government sold more SOEs through flotation than it had done in the previous three years (Wright 1996).

In 1998, the impetus for reforms quickly faded away, with Egyptian economic policies effectively held hostage of a power struggle within the ruling party. The first wave of privatisations had exacerbated the differences between two NDP factions, neither of which was particularly happy with the reform process. On the

one hand, the *étatist* wing saw public sector reform as a substantial erosion of state power, to control the main levers of the economy to the advantage either of the *infatih* bourgeoisie or in some cases of foreign companies. On the other hand, the reformist wing was equally worried but for the opposite reason: there was still too much interference of the state in the economy, and despite complying with the IFIs' requirements the government still had a *dirigiste* attitude. In the 2002 party conference these two opposite visions on the economic path to be followed squared off (Collombier 2006: 7). The appointment of Mahmoud Mohieldin as co-chairman of the Economic Committee of the party meant that the argument of the reformist wing could not be ignored any longer, and indeed marked the beginning of a change of the guard, which led in 2004 to the resignation of the cabinet headed by Atef Ebeid.

Despite the standstill in terms of actual reforms, this period is particularly important as it is here that one can see a modification of power relations between international and national institutions, with political agency at the national scale becoming a key factor in the reform process since the entry into office of the Nazif cabinet. Endogenous agency is for example visible in the launch of the National Supplier Development Programme (NSDP) by the industry minister in October 2005 (EIU 2005c: 30). The programme aimed at modernising Egyptian industry by providing funding and technical assistance to SMEs supplying large companies in all sectors.¹⁴²

This change of the tide is better witnessed by what happened with respect to the management and privatisation of state-owned assets. Under the direction of Mahmoud Mohieldin, the Asset Management Programme (AMP) repeatedly received the praise of the World Bank, as witnessed by the yearly *Doing Business Report* (see Section 3.3.2 on this). According to Mohieldin himself, the reform agenda of the Nazif government 'was ahead of what was expected by the IMF and the World Bank', and the success of the Egyptian government in getting the support of IFIs was in his opinion related to the fact that 'when you have your own agenda,

¹⁴² The government contacted large companies (thirty-seven contacted before the launch of the programme, about one hundred during the unfolding of the process), which would then extend the project to their smaller suppliers. It is not difficult to see how this might serve more the purpose of strengthening the alliance between regime and largest companies rather than actually improving the efficiency of small and medium suppliers.

you can always get people behind you'.¹⁴³ Again, the degree of autonomous national agency is visible already in September 2004 when Mohieldin said that 'the "strategic" designation previously applied to certain industrial sectors – such as pharmaceuticals, flour milling and tobacco – would no longer apply' (EIU 2004: 23). By mid-2005, significant state-owned shares in companies such as Eastern Tobacco, monopolist in the sector, and Sidi Krir Petrochemicals were divested through the stock exchange, whereas the Egyptian Fertilisers Company (46 per cent controlled by the state) was sold to a local consortium for almost LE2 billion (EIU 2005b: 26-7). Only the impact of the worldwide recession put a halt to the privatisation programme.

Thus, compared to agriculture, reforms in the manufacturing sector show a remarkable degree of variation on both the dimensions considered. On the one hand, whereas trade liberalisation measures were undertaken without much controversy, public sector reform and privatisation encountered the resistance and non-cooperation of the Egyptian government until 1996, before a phase of enthusiastic compliance followed by stasis and then again by cooperation from 2004 on. On the other hand, the first wave of economic reforms was characterised by a strong leadership on the part of international organisations, whereas the second part saw an endogenous project emerging from within the ruling party and getting the IFI's support.

5.2.3. *Finance: the politics of policy turnarounds*

Financial sector reforms are better analysed when split into three different phases, largely overlapping with those identified in industry, with the only substantial difference being that here the second wave of reforms, spurred by Egyptian forces, starts one year earlier (in 2003), with new Central Banking Law and the appointment of Farouk El-Okdah as CBE governor. Whereas the range of policies entailed by financial sector reforms is indeed impressive, and some attention is devoted to general developments, the focus here is on two specific aspects: exchange rate management, fundamental for the smooth operation of monetary relations; and ownership structure of the banking sector, usually considered a key variable with respect to credit creation and allocation (La Porta et al. 2002).

¹⁴³ Interview with Mahmoud Mohieldin, then minister of investment, Cairo, 10 July 2010.

In the first phase, some reforms were adopted even before the signing of ERSAP. Starting in January 1991, the Egyptian government gave in to increasing pressures from IFIs and international donors with respect to opening up the financial sector, with the approval of a range of measures ranging from the introduction of a treasury bill system to the liberalisation of interest rates, from the removal of credit ceilings to the substantial lowering of reserve requirements for banks (Ikram 2006: 182-3).

With respect to our two main areas of concern, however, the government did not prove particularly receptive to the demands coming from IMF and World Bank. Devaluation of the pound was at the top of the IMF wishlist, as export-led growth had to be based on a more competitive exchange rate. However, the government considered a measure of that kind to be unsustainable for three reasons. Firstly, it would have increased substantially the import bill, and particularly the wheat one, fundamental for feeding lower-class Egyptians and keep them away from the streets. Secondly, devaluation would have reduced the incentives for Egyptian workers abroad to send their remittances.¹⁴⁴ Lastly, a lower value of the pound would have pushed Egyptians to look for a safe haven in the US dollar, thus further exacerbating the dollarisation of the economy. Thus, in this phase the only success of ERSAP was the unification of the exchange rate at the level of the most devalued rate. The deadlock on the issue of devaluation proved so tough to break that by 1995 the IMF dropped the call for devaluing the pound (EIU 1996: 18).

International organisations were even less successful in convincing the government to privatise public sector banks. In January 1993, under the threat of the World Bank withdrawing the second tranche of its loan, the government committed to estimate the value of several joint venture banks, with the prospect of divesting state-owned shares (IMF 1993a). In September of the same year, when the three-year Extended Fund Facility was approved, the IMF included among its conditions the privatisation of joint-venture banks and one public bank (IMF 1993b: 313). Under the pressure of debt cancellation to be decided in mid-July 1994, the government partially complied with these demands, selling its shares in eleven joint-venture banks, but without touching the 'big four' public banks (Momani 2005: 55). The

¹⁴⁴ In this respect, Mubarak and the minister in closer contact with the IMF used repeatedly the argument that remittances constituted a greater source of foreign exchange earnings than exports (EIU 1994).

privatisation of a public sector bank was also a condition of the 1996 Stand-by Arrangement, but the government did not comply with it.

The phase of political struggle within the NDP, and more broadly within the regime, had a twin relevance for the financial sector. On the one hand, the financial sector policies of the Ebeid cabinet were at the very heart of the critique developed by Mahmoud Mohieldin, firstly as researcher at ECES and then as co-chairman of the NDP Economic Committee (Mohieldin and Nasr 2003a and 2003b; FEMISE 2004: 43-83). On the other hand, the 'reformist' wing within the NDP had developed over time strong ties, both personal and financial, with the most globalised fractions of capital (Roll 2010). This obviously meant that international actors, be they IFIs, international donors or transnational firms, had considerable stakes in the power struggle taking place on the national scale.

Whereas not much happened on the front of privatisations, it was exactly in this phase that the exchange rate system was turned upside down. Formal relations between the IMF and Egypt ended in 1998 with the conclusion of the 1996 Stand-By Arrangement. Yet, from 2000 on the government proceeded with the liberalisation of exchange rates, firstly abandoning the fixed exchange rate towards a managed-peg and then announcing the flotation of the pound in January 2003 (EIU 2003: 18-21). The combination of these two measures, and of the several devaluations in between, amounted to a depreciation of the pound against the US dollar of about 40 per cent between January 2000 and June 2003 (OANDA 2011). These measures also led to a very uncharacteristic statement of support on the part of the IMF (2003).

The new Central Banking Law and the aggressive programme of divestiture of state-owned shares in joint-venture banks signal a sea change also with respect to state ownership of the banking sector. By December 2005, twelve out of seventeen joint-venture banks were fully privatised, 80 per cent of Bank of Alexandria was sold to a foreign investor, and Bank Misr and Banque du Caire were merged (Mohieldin and Nasr 2007: 719). The privatisation of the resulting Banque Misr was postponed indefinitely due to adverse market conditions in the wake of the 2007-08 financial crisis. Despite this protracted break, further extended by the popular protests leading to the fall of Mubarak in early 2011, the change in the approach with respect to the overall financial sector is still apparent.

The most important aspect of this phase is arguably the change in the position of international organisations. With the exception of the yearly Article IV

consultations, the IMF had disappeared from the Egyptian scene, with the World Bank and to a lesser extent the EU being the most relevant international institutions in the financial sector. Contrary to what happened in the 1990s, both these institutions had a much lower profile: they became supporters rather than leaders in the reform process. This was exemplified by the strong emphasis on policy ownership by the World Bank documents supporting the issuing of three successive Financial Sector Development Policy Loans totalling \$1.5 billion between 2006 and 2010 (World Bank 2006, 2008a and 2010b).

With respect to financial sector reforms, an implicit division of labour was established, with the World Bank focusing on the macro-aspects of reforms, such as the consolidation of the banking sector, the divestiture of state-owned shares in joint-venture banks and the privatisation of state-owned banks, and the EU 'doing what it does best': creating institutional and regulatory capacities.¹⁴⁵ More specifically, this meant supporting the CBE towards being in a position of implementing Basel II regulation by 2011. In this direction, the EU financed two projects, carried out by the European Central Bank, and within it by the central banks of seven EU member states.¹⁴⁶ The first project, running from 2006 to 2008, focused almost exclusively on capacity-building missions. The second project (2009-11) supported the CBE in developing the appropriate tools, and particularly an effective regulatory framework, to ensure the compliance of the Egyptian banking sector with Basel II regulations (ECB 2008). Thus, the EU was mostly active in terms of technical assistance and support, but the goals for the Egyptian banking sector – i.e.: Basel II compliance – were set by the CBE jointly with the Ministry of Finance and the Ministry of Investment.

Overall, it appears that relations between international and national institutions on financial sector reforms changed significantly between 1991 and 2010, with different tempos depending on the issue at hand but with two underlying tendencies. On the one hand, a marked improvement can be noticed in the quality of relations between international organisations and donors and their Egyptian counterparts. Even on the two most sensitive issues of exchange rate management and state ownership in the banking sector, a phase of confrontation

¹⁴⁵ Interview with Sahar Nasr, senior financial economist for the World Bank in the Middle East and North Africa, Cairo, 20 June 2010.

¹⁴⁶ Namely: Bulgaria, Czech Republic, France, Germany, Greece, Italy and Romania. Interview with Hervé Leclerc, ECB Resident Programme Coordinator, Cairo, 23 June 2010.

and reluctance to cooperate was replaced firstly by compliance and then, always after fierce political battles on the national scale, by unfettered enthusiasm. On the other hand, as reforms unfolded, the role of the actors involved changed dramatically, with international institutions changing their position from leaders and devisers of reforms to supporters of an economic project arising from within Egypt. Conversely, national actors, and particularly the Ministry of Investment and the CBE, gained a substantial degree of autonomy, becoming themselves leaders of the second wave of reforms in the country.

5.3. Global capital, national state and class structure: comparing theories

In order to show the state-driven character of neoliberalisation in Egypt, the previous section focused on institutional relations. On each of the two dimensions discussed, a broad shift took place in the period considered. Firstly, with respect to the type of relations, institutions at the national and at the international scale gradually smoothed their divergences out, with an increase in the quality of their relations, away from confrontational stances and towards a more cooperative approach. Secondly, with respect to the leadership in the reform process, a shift was identified from international institutions to national ones, with the latter gaining more autonomy particularly during the Nazif government.

In the awareness of the limitations of this approach, but at the same time in the hope of still being accurate enough, institutional relations are taken in this section as a reliable proxy for relations between different spatial scales. Referring to the three approaches discussed in Section 2.3, the aim here is to assess their validity in the light of the empirical material presented in the previous section. In particular, the added value of the approach developed in this work is identified in the ability to account both for the early relevance of 'the international' in altering the conditions for successful capital accumulation on the national scale and for the increasing importance of political agency in defining the details of Egyptian reforms on the national scale, considered as nodal and thus as the scale where the peculiarities of the Egyptian way to neoliberalism are effectively designed.

5.3.1. *The transnational state case: state as transmission belt of global capital?*

This first hypothesis is discussed here referring to the three related forms in which it has been developed in critical IPE. Firstly, accounts inspired by Cox and thus

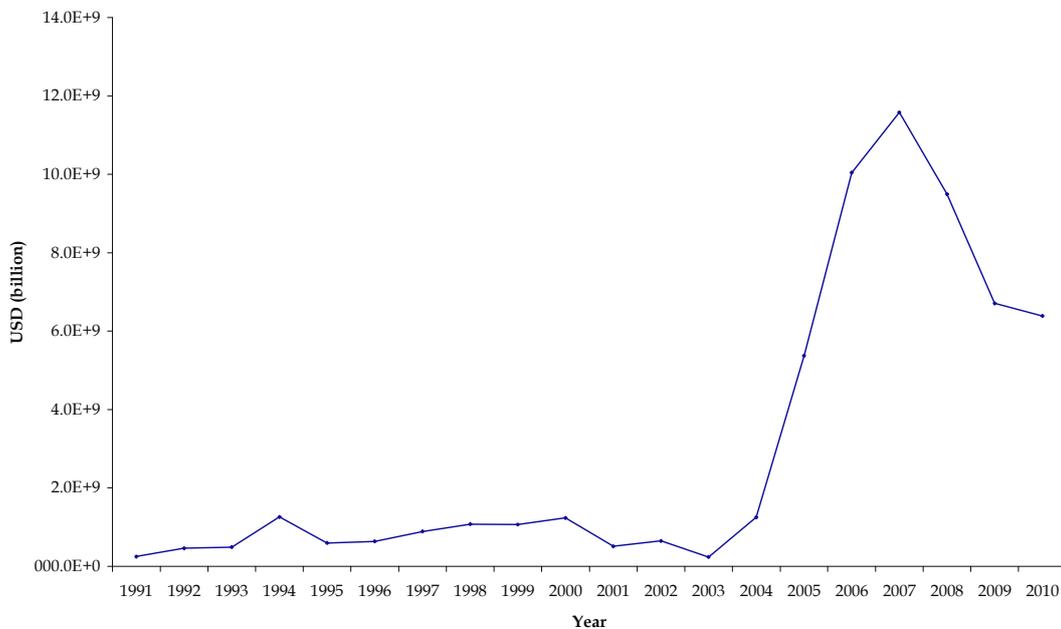
discussing the power of US hegemony in diffusing neoliberal policies in the rest of the world. Secondly, the agency-focused account provided by the Amsterdam School, referring to the emergence of a transnational capitalist class increasingly integrated beyond the national scale. Lastly, the thesis of the 'transnational state' proper and of the emergence of global capitalism developed by William Robinson (2004: 85-144). Whereas these approaches may differ with respect to which actors engendered neoliberal globalisation and which ones benefit the most from it, they all share the point that this process has substantially weakened the power of states to resist the imperatives of global capital accumulation. Indeed, Robinson compares explicitly the state to a filtering device at best (2004: 109), and to a transmission belt of the transnational elite project at worst (2003: 62).

Their interpretation of what happened in Egypt would go along these lines. The rise of the transnational capitalist class led to the diffusion of neoliberal policies across the globe since the 1980s. Some areas, and the Middle East most notably, were more resilient to these pressures, but eventually the imperatives of global capital accumulation pushed them to adapt, and to give in to the transnational project of transforming national economies in order to serve the interests of the most transnationalised factions of capital, and most eminently financial. The stops-and-goes on the part of the Egyptian government are to be seen as attempts at resisting pressures that eventually won out, transforming Egypt into one of the outposts of neoliberalism in the Middle East. This substantially weakened the economic power of the state in favour of local and transnational capitalists.

The greatest merit of this approach is the ability to point out how the international widely conceived altered the conditions of workability for the existing regime of capital accumulation in Egypt during the late 1980s. It is undoubted that the spread of a different set of policies on the global stage, including most notably the liberalisation of capital movements and the withdrawal of the state from the economy, had a significant role in worsening the fiscal crisis of the state. In the specific Egyptian case, the pressures deriving from these trends were further strengthened by its peripheral position in the global political economy. These approaches are thus particularly well-suited to explain how the combination of uncertainty and vulnerability perceived by Egyptian policy-makers during the early 1990s had a key role in pushing them to embrace the recipes provided by IMF, World Bank and major donors.

The transnational state thesis appears validated by the specific reform agenda promoted by IFIs and USAID in the wake of the 1987-88 fiscal crisis. In particular, the emphasis put on movements towards a floating exchange rate, the liberalisation of capital movements and more generally investment-friendly policies are signals of the ever-greater clout of financial capital on the global scale, and thus also within international organisations (Duménil and Lévy 2004). The claims of the transnational state thesis appear to hold also with respect to the end results, as the expected and predicted rise in FDI did take place, even though it did so in a sustained way only between the past decade (see Figure 5.1), with Mohieldin as ‘minister of foreign direct investment’, as an official at the EU delegation put it.¹⁴⁷

Figure 5.1 - FDI net inflows (1991-2010)



Sources: World Bank (2010a)

Whereas the influence of ‘the international’, both in its structural features and its agential forms, is well captured by this approach, the transnational state thesis struggles when dealing with the other side of the equation. Considering the state as a transmission belt is somewhat ungenerous and certainly misleading in the Egyptian case. Rather, the empirical section suggests that the state has been a

¹⁴⁷ Interview with Felipe de la Mota, official of the EU delegation in Egypt, Cairo, 21 June 2010.

fundamental force in the domestication of neoliberalism, to the point of making the neoliberal project an endogenous and genuinely Egyptian one.

The internalisation of neoliberalism on the national scale on the part of a relevant part of the ruling bloc had two main consequences. On the one hand, over time the leadership in the design of the reform process shifted over time away from the transnational capitalist class and its agents towards a project driven by the most outward-oriented faction of Egyptian capital. This is visible in the evidence discussed in Sections 4.2.2 and 4.2.3 regarding the increasing relevance of large entrepreneurs at the core of Egyptian economic policy-making. More specifically, the previous section has indicated in which circumstances leadership in the reform process moved towards the national scale. In agriculture, this happened when the state stepped back in the provision of fertilisers in the 1990s, being able to get the issue off the agenda until the Nazif government decided to divest state-owned shares in some of these companies. In manufacture, the tide changed with the aggressive programme of liberalisation launched by Morsi with the support of Rashid. In finance, the crucial moment was the unexpected decision to move towards a floating exchange rate regime.

On the other hand, the domestication of neoliberalism also means that the reform process, once internalised at the national scale, is subject to significant variations to adapt to the social fabric into which it is applied. In the Egyptian case, it would probably be more correct to say that the project was adapted to the needs and interests of the ruling bloc, and of a particular section of it. These changes were visible first of all in the cases of resistance to neoliberal pressures, particularly during the first phases of the reform process. The stubbornness of the Egyptian government with respect to what were considered key priorities by the Bretton Woods twins such as exchange rate flexibility and privatisation of SOEs, and particularly banks, is a case in point. Similarly, the role of the national scale can be seen in those cases of partial or selective implementation of controversial reforms. The fact that these happened because of considerations related to political stability does not hamper the fact that this was possible because of the opposition of key decision-makers on the national scale. Thus, it would appear that also in this respect the definition of the state as a transmission belt is somewhat inadequate.

In sum, the transnational state thesis gets most of the big picture right. Changes on the global scale are indeed fundamental in pushing the Egyptian

government to pursue another strategy of capital accumulation. After all, it was the starting point of the empirical part of this study to show that the Egyptian economy was subject to a process of neoliberalisation over the past two decades. Yet, these approaches pay insufficient attention to the resilience of institutions on the national scale, with some episodes of successful resistance and partial implementation running counter the expectations of neo-Gramscian scholars. At the same time, the dominance of the international is questioned also by the very dynamics of the second wave of reforms, with the economic troika taking the lead and international institutions effectively playing second fiddle to an Egyptian reform project. This was characterised by a lower pace than the one originally advocated by IFIs, and sometimes also by a different sequencing of specific reforms.¹⁴⁸ With respect to its content, domesticated neoliberalism in Egypt appeared less interested in competition than IFIs would have hoped, and also showed that the regime, and within it the rising capitalist elite, is still holding the keys to the economic system, either through direct state intervention or more often through the deployment of new informal mechanisms of control and exploitation.

5.3.2. *The area studies case: global capital fooled?*

While being the main aspect that the transnational state thesis is unable to explain, the domestication of neoliberalism is in fact the main focus of the second set of approaches, which discuss how in the Middle East key policy-makers on the national scale are able to adapt, defuse and sometimes subvert international pressures and bend them towards the pursuit of national goals. Extrapolating from the main approaches coming from this tradition, what was experienced by Egypt in the past two decades would be interpreted in the following way. During the last 1980s, the fiscal position of the Egyptian state was so dire that help from international institutions was no longer avoidable and could only come with strings attached. The two pressing concerns of obtaining debt forgiveness and cash in the form of loans pushed the Egyptian government to accept some of the conditions set by IMF and World Bank. However, controversial measures were either opposed, diluted or their implementation postponed indefinitely. Thus, economic reforms were carried out only according to what was considered as acceptable and sustainable by the ruling bloc. According to this hypothesis, prominent actors on the

¹⁴⁸ The management of the exchange rate is probably the best case in this respect.

national scale, which in the Egyptian case correspond to the various components of the ruling bloc (military, bureaucracy, *infitah* bourgeoisie), were able to take control of the reform process, subjecting international pressures to their project of reforming the Egyptian political economy in the direction of the stabilisation of authoritarian rule.

An account of this sort is particularly well-suited to show the divergences between the demands of international institutions and donors and what was actually implemented by the Egyptian government, particularly during the first phase of the reform process. The devaluation of the pound demanded by the IMF and repeatedly delayed by the government is a good case in point. On this occasion, the decision to ignore this demand and rather focus on the more manageable and less threatening target of unifying the exchange rate were dictated by concerns with the reactions of lower social classes and Egyptians abroad. Delays in privatisation, on the other hand, were more directly related to concerns about the balance of power within the regime, with the attempt on the part of the public sector, in both its military and bureaucratic components, to derail the privatisation process in order to keep the status quo firstly within the ruling bloc and then more broadly within Egyptian society. Also the change of course on both aspects of devaluation and privatisation can be explained by referring to the changed balance of forces within the regime, with the following shift in interests that made these measures not threatening anymore for the ruling bloc, and indeed allowing the more outward-oriented component to push towards a new wave of reforms, with IFIs gradually becoming less important.

Domestication also means the de-radicalisation of the potentially disruptive impact of pressures encroaching on the national scale. Most area studies account convincingly also for this aspect, showing how some pressures for reform from IFIs were effectively adapted, if not subverted, in two ways. On the one hand, as demonstrated by the example above on privatisations, the objective was avoiding that reforms would endanger regime survival, thus making sure that the measures would benefit those already part of the wider ruling bloc. On the other hand, domestication might also take another route, with the insertion of genuinely Egyptian elements substantially different from the initial proposals and demands of IFIs. We have seen this for example in agriculture in the form of renewed state intervention with respect to fertiliser provisions. In the manufacturing sector a

similar process can be detected in the launch of the NSDP programme discussed above and in 2008 in the proposal by Mohieldin, turned into law in June 2010, to substitute privatisation with public-private partnerships (PPPs) as the privileged form of state-asset management.¹⁴⁹ Thus, it would appear that despite strong pressures, the national scale and within it the most powerful actors were able to keep the overall reform process under check.

Keeping the reform process under check is very different from preventing reforms from happening altogether, and here lies the first significant deficiency of this approach. Accounts focusing on the national scale and its ability to manoeuvre international actors pay insufficient attention to changed conditions on the global scale. In other words, it is undeniable that a domestication of neoliberal policies took place, but this does not mean that the policies adopted were not neoliberal anymore. After all, as we have seen in Chapter 3, the conditions for capital accumulation, and the regime regulating them, changed substantially in the past two decades. The direction of their change is indicative of the power of the international scale in limiting the range of available choices for the Egyptian regime. This is a fundamental aspect to which most area specialists tend to pay insufficient attention.

Following from this, it is also difficult to explain which factors are leading to the shift in power relations between the entrepreneurial and the public sector components within the ruling bloc, if not in terms of unintended consequences of reforms that were originally adopted to please the IMF and the World Bank. But both the increased political activism of businessmen, and their positioning behind the rising star of the ruling party, suggest that there was something more than unintended consequences, and that the relations of this business class with foreign companies might also have played a significant role in their political rise, thus marking once more the relevance of changed international conditions in setting the conditions for action also on the national scale. At the same time, and rather ironically, while explaining the power shift within the ruling bloc in terms of unintended consequences, this approach is largely unable to grasp the unintended consequences that such power shift produced on regime stability. Thus, the risks involved in the empowerment of the emerging capitalist elite for the stability of the

¹⁴⁹ An even more controversial proposal by Mohieldin, involving the free distribution of amalgamated shares of SOEs to the population (named: 'popular equities'), was watered down by the government itself (EIU 2008: 12-3).

implicit pact between public sector and *infitah* bourgeoisie are somewhat neglected by this approach.

Summing up, accounts based on the specific circumstances characterising the Middle Eastern political and economic systems are particularly convincing in accounting for the ways in which the national scale is capable of bending international forces towards the pursuit of national goals, be they regime stability or economic growth. This is an aspect somewhat overlooked by the transnational state thesis discussed earlier, and thus provides a welcome improvement. However, by focusing so closely on the national or at best regional dimension, most area studies tend to lose sight of the underlying transformations experienced by the Egyptian political economy in terms of ownership shift away from the state towards the private sector and of unprecedented growth of the banking sector, and more generally of a shift towards a different regime of capital accumulation, which despite certainly having significant national peculiarities still remained neoliberal in its substance.

5.3.3. *The Gramscian case: international constraints meet national agency*

The approach developed in this work is able to grasp the 'big picture' in a similar way to the transnational state thesis does, and at the same time it takes into account also the details at the heart of area accounts of the political economy of reforms in Egypt. It also points towards the main mechanism driving the modification in interscalar relations, away from the domination of international institutions towards a specifically Egyptian reform path. In a nutshell, this approach argues that shifts in relations of class forces produced by the move towards a neoliberal regime of capital accumulation opened up the space for a political battle between the two main components of the ruling bloc, with the end result of eventually further empowering the private capital oligarchy also *vis-à-vis* international institutions and donors.

Since the 1980s, and ever more so since the signing of ERSAP, the international scale dictated the parameters within which capital accumulation in Egypt could take place. Even though the empirical section above mostly focused on the international in the form of specific agents, it ought to be reminded that there were also structural elements at play, such as the ever greater integration of markets particularly in the developed core and the increased role of finance in the overall economy, which had

made 'developmentalist' economic policies much more difficult to sustain (Kim 1999). Thus, in this phase the dominating influence of the international was visible in the first place in the increasing malfunctioning of the *étatist* regime of capital accumulation had become dysfunctional, and then in the pressures leading national policy-makers to adopt policies inspired by the Washington Consensus.

During this period, the most important actors on the national scale could at best resist specific measures whose impact might have been detrimental to regime stability. For example, resistance to privatisation until the mid-1990s was eminently based on considerations of intra-regime stability, and specifically on the fear that the state might on the one hand lose power by forsaking direct economic production, and on the other hand it might jeopardise the intra-regime balance between the dominating public sector and the dependent *infitah* bourgeoisie. The other main example of resistance discussed, with respect to the devaluation of the pound, was on the other hand related to the potential impact on Egyptian society at large, in terms of more expensive bread, less remittances and increased dollarisation of the economy, which could have also constituted a threat to regime stability.

Despite the relevance of these disagreements on which the government had the upper hand, during this phase we saw an incipient shift not only in the regime of capital accumulation, but also in the wider class structure. This took the form of a substantial empowerment of private-sector capital owners, and more specifically of the heirs of *infitah* bourgeoisie, which led in turns to an ever greater integration of commercial, industrial and financial capital. Conversely, these years produced a relative weakening of other social groups both within the ruling bloc and outside of it. On the one hand, the privatisation of state-owned enterprises after 1995 diminished the clout of the public sector on economic production, and more generally on job provision and thus on the ability to create effective patron-client relations. On the other hand, various forms of dispossession in the countryside and in industrial plants also worsened the position of working class and peasantry.

Winners and losers of reforms in the ruling bloc were effectively the two NDP factions fighting for supremacy within the regime. The composition of the two factions, while often discussed in generational terms (Collombier 2006: 8-10), could alternatively be traced in class terms. On the one hand, in the 'reformist' camp around Gamal Mubarak we see the presence of large entrepreneurs, from the already mentioned Ahmed Ezz and Rashid Mohammed Rashid to the Bahgat Group

(EIU 2005a: 22). On the other hand, the old guard (*al-haras al-qadim*) was entirely composed by long-serving politicians and bureaucrats, such as Kamal al-Shazly and Safwat al-Sherif, supported by the highest echelons of the army, and particularly the minister of defence Hussein Tantawi. It is thus not surprising that the former group advocated further retrenchment of the state and more aggressive moves towards liberalisation both in trade and finance, whereas the latter supported a roll-back of reforms towards a stronger presence of the public sector in the economy.

While influenced by the demands and preferences of major actors on the international scale, the political battle at the heart of the regime did not have a predetermined outcome. The reforms pushed by IFIs, USAID and other donors certainly strengthened the position of the 'reformist' wing. In this respect, the first phase of reforms emancipated what had been the 'junior partners' of the public sector from their inferiority, putting them in a position to compete for leadership in government and by extension in the regime.

This very battle suggests that the national scale certainly has a role that goes beyond that of a transmission belt. While the rise of the 'reformist' component was at least partly dependent on the international, its triumph produced the further empowerment of the national scale. More specifically, the economic and political rise of the financial fraction of capital, albeit not as clear-cut as in most OECD economies, led to a relative alignment of the Egyptian class structure to the prevailing one on the international scale. The most significant elements of this alignment were the weakened position of industrial workers, peasants and workers in the informal economy, as much as in the relative decline experienced by the public sector, particularly in its bureaucratic component. The spectacular rise of a small minority of private capital owners is also in line with what happened in the rest of neoliberalised economies. This alignment is however bound to remain relative, in that there is always a discrepancy in outcomes when the same policies are applied in different places and at different times. In the Egyptian case, the most significant peculiarity was the fusion of the various forms of capital into the hands of very few entrepreneurs, significantly different from the disproportionate empowerment of the financial fraction of capital seen elsewhere.

Following from this relative alignment, the broad framework informing the policies of international institutions and donors could now be pursued from within the country. This shift in the balance of class forces on the national scale is also

linked to the two forms of domestication of neoliberalism discussed above. On the one hand, the outward-oriented component within the regime developed its own project of neoliberal reform, which leads the IMF, the World Bank and the EU to take on a lower profile. On the other hand, 'reformers' were able to pursue the final goal of 'a free market economy' by mixing up the implementation of recipes suggested in the previous decade with more heterodox policies, such as continuing state intervention in agriculture, the launch of state-funded industrial modernisation and the move towards PPPs with respect to the management of state assets.

In the attempt to keep together the constraints set up by the international with the room for choice left for agency on the national scale, while at the same time preserving its sensitivity to shifts in class relations, the articulation approach developed in this thesis accounts both for changes in the 'big picture' and for the relative autonomy of local action. The diffusion of neoliberalism on the global scale worsened the fiscal crisis of the state in Egypt. This pushed the regime towards following a path that would not only alter the regime of capital accumulation in a neoliberal direction, but would also shift the balance of class forces within Egypt. Financial capital took centre-stage, becoming the cement linking together also the various form of capital, now increasingly in the hands of a small number of entrepreneurs very close to the regime. This shift provided the conditions for a second wave of reforms, this time driven by this very component of the ruling bloc, being able to follow the guidelines provided by IFIs during the 1990s while at the same time 'Egyptianising' neoliberalism in significant respects.

5.4. Articulation II: U&CD, spatial scales and passive revolution

The evolving relation between national and international scale constitutes the second instance of the relation between structure and superstructure on which hegemony is constituted, reproduced and transformed. Also in this case there is a determination in the first instance, on the part of the international, constraining the perimeter for potential courses of actions on the national scale. At the same time, the national scale has its own relative autonomy, evident in a weaker sense in the possibility of pursuing a specific course among those provided, and in stronger sense in the ability to reshape some of the initial constraints set up by the international.

As originally discussed by Trotsky and now revived by Rosenberg, the spread of capitalism on the global scale across highly uneven societies does not lead to an overall equalisation of profit rates, but rather to the combination within the newly affected societies of new elements inherent to capitalist development with elements typical of the pre-existing socio-economic formation. This combination further exacerbates rather than ameliorates the unevenness of development, and even more so in peripheral countries. In the case of Egypt, for example, 'whip of external necessity' and forms of ideological and material influence are fundamental in accounting for the shift from an *étatist* towards a neoliberal accumulation regime. At the same time, as we have seen, geopolitical and geoeconomic pressures combined to alter the class structure on the national scale, and this in and of itself prevents a copycat approach, transposing the accumulation regime prevalent on the international scale into Egypt. Following from this, also the impact on the social structure could only take the form of a partial, relative, alignment with prevailing social structures on the international scale.

What is relatively undisputed is that under conditions of neoliberal globalisation the room to manoeuvre on the national scale narrows down significantly. This reduction is different from the cancellation of the autonomy of the national scale. Despite the urgency of the 'whip of external necessity', there is never a predetermined course of action with respect to how a lower spatial scale – the national in our case – will react to the pressures of the international. In the Egyptian case, this autonomy manifested itself in two main forms. In a weaker sense, it affected the 'when' of policy change. For example, with respect to timing and sequencing, the delays and selective implementations on exchange rate devaluation and privatisation of state-owned banks impacted significantly on the development of the Egyptian financial sector, by both allowing the ruling bloc to prepare for the change to come and on a more systemic level further reproducing unevenness in time. The autonomy of the national scale was also exerted in a stronger sense, as visible in the strategies employed by the government to cope with external pressures, ranging from dilution in time to the insertion in the reform programme of elements apparently in contradiction with the neoliberal template.

In the Egyptian case, actions on the part of the regime fall squarely within the category of passive revolution as reinvented by Gramsci, and recently revived in critical IPE (Morton 2007a). Within an already existing political framework

revolving around the territorial state, the imperative of capital accumulation on a global scale cannot circumvent the mediation of pre-existing political structures. When the development of the very social structure is heavily influenced by the presence of an overpowering public sector, as in Egypt, it is not surprising that the state itself becomes a key agent of socio-economic change. As no other social class was on its own in a position to drive the process of restructuring of social relations of production along neoliberal lines, this socio-economic change was effected mostly through state instruments. As Mandel famously put it, in these circumstances the state acts as 'the midwife of modern capitalism' (1975: 54). Within this state-dominated framework on the national scale, the diffusion of material – i.e.: capital, goods and services – and ideational – i.e.: policies and ideologies – trends is thus necessarily fragmented, with the differential insertion of different societies within the global circuit of capital accumulation happening through gradual adaptation mostly implemented at the state level, even though a distinctive class dimension is retained. At the same time, the advancement of this process of economic restructuring is accompanied with the restoration of asymmetrical relations between different social classes in the political sphere, and thus with the reconfiguration of political relations under redefined yet undeniably authoritarian conditions.

Neoliberalisation of the Egyptian economy taking place via passive revolution also has significant implications for the way we think of hegemony. In Chapter 1 I have suggested that hegemony in the Gramscian sense necessarily arises out of state-civil society relations. Considering the lack of a supranational state and at best the embryonic state of global civil society, hegemony is thus best conceived as originating on the national scale. In Chapter 2, I discussed how passive revolution is always linked to the crisis of an accumulation strategy on the national scale, requiring an adaptation to a new accumulation regime prevalent on the international scale. The failure of an accumulation strategy usually means that the existing hegemonic project on the national scale has become ineffective. Indeed, it proves the failure of hegemony on the national scale, as the ruling bloc abdicates to the attempt of achieving 'integral hegemony' in its relations with the ruled, and moves towards linking its survival to an hegemonic project elaborated on a different spatial scale.

5.5. Conclusion

Through the interaction between international and national institutions, this chapter has identified three main trends characterising relations between international and national scale in the unfolding of reforms in Egypt. In the first place, these relations grew increasingly more cooperative over time, after a first period where resistance and repeated delays were the favoured strategy of the government, particularly with respect to what were considered more sensitive issues, such as exchange rate devaluation and privatisations. The second trend sees the national scale becoming gradually more important over time, so much so that the reforms implemented since 2003 were remarkably free of international pressures, and rather originated on the national scale, and more specifically within the component of the ruling bloc most closely tied to financial capital. Lastly, the interaction of the two trends above produced a differentiation of the form of neoliberalism as developed in Egypt compared to the template promoted by IFIs and international donors during the 1990s. More specifically, neoliberalism in Egypt privileges the dimension of dispossession over that of competition and efficiency, even though this meant resorting to heterodox policies in sectors as different as fertiliser provision, industrial modernisation and management of state assets.

Existing accounts of these developments tend either to privilege the imperatives of global capital accumulation or to grant a disproportionate power to the national scale in reshaping to its own advantage pressures originating from the international. In the former case, this leads to a flattening of the political space, with states simply internalising and reproducing on the national scale the material and ideational trends typical of neoliberal globalisation. In the latter case, it is the ability of the international to fundamentally alter the conditions for socio-economic sustainability to be seriously underestimated.

It is my contention here that a Gramscian approach sensitive to evolutions in class relations is able to account both for the determination in the first instance on the part of the international and for the relative autonomy of the national scale. The affirmation of neoliberal globalisation with its material and ideational trends redefines the boundaries within which purposeful political action on the national scale can take place. However, the latter still enjoys relative autonomy both in terms of choosing a course of action rather than another among those available, and to

some extent in reshaping the boundaries set up by the international structure, leading to various forms of domestication of neoliberalism.

According to this account, interscalar articulation of external pressures takes the form of passive revolution of capital effected by state means. More specifically, the socio-economic crisis of the 1980s was used by the *infitah* bourgeoisie within the ruling bloc to reshape the accumulation regime in a neoliberal direction, producing on the one hand their empowerment *vis-à-vis* the military and bureaucratic component of the ruling bloc and on the other hand the further weakening of those social groups already excluded from the ruling bloc. In sum, the neoliberal economic revolution could take hold, albeit with distinctly Egyptian features, while a reconfiguration of power would allow the preservation of an authoritarian system of rule.

Chapter 6

IDEOLOGY RESURGENT?

THE ARTICULATION OF MATERIAL FACTORS AND IDEAS

6.1. Introduction

The third main area of contribution of a Gramscian approach to understanding the political economy of reforms in developing countries refers to the conceptualisation of the interaction between material forces and ideas, and the way they relate to class relations. The focus on shifts in class relations is nuanced by a third form of articulation, which sees ideas as relatively autonomous from material factors. In this way, it is possible to develop an account able to eschew both instrumentalist explanations that see ideas as merely functional to a specific economic and political project and ideational accounts suggesting that ideas are the main driving force of a given reform project, with no relation to their social substratum and to the ways this feeds back on ideas themselves.

The evaluation of this argument with reference to the Egyptian case is complicated by two peculiarities whose implications point in very different directions with respect to the articulation of material and ideational factors. On the one hand, as rightly suggested by Babb (2001: 16-21), within an increasingly integrated global economy based on freedom of movement for capital and goods, developing countries are caught in a dilemma by which the more they open up their markets, the more they become resource-dependent. In turn, the growing importance of foreign capital also increases the sensitivity of national policy-makers to the demands of foreign companies and governments. As a consequence, resource dependence often translates into knowledge dependence, with policy-makers and academics being pushed to follow the wisdom of the day in the more powerful countries.

On the other hand, Egypt came from a history of strong rhetoric against the United States and the West under Nasser. Under Sadat, the *étatist* framework for economic policy was not altered significantly by *infitah*. The sedimentation of these

ideational aspects could not be wiped off overnight. As we have seen in Chapter 2, the transformation of 'common sense' as intended by Gramsci is always a molecular, and thus gradual, process. This argument would seem to suggest a form of path-dependence with respect to the economic policy paradigm, which – while not necessarily opposed to the correlation between resource and knowledge dependence – certainly acts as a countervailing force in the Egyptian case.

This chapter aims to weigh the relative importance of these two trends. In doing so, it proceeds as follows. The first section abandons the threefold structure employed in the previous two empirical chapters to focus firstly on the emergence of think tanks in Egypt as organic intellectuals clarifying and organising the key ideas at the heart of the reform project, and then discusses whether and when a paradigm change took place with respect to economic policy in agriculture, industry and particularly finance. The second section compares the findings emerging from the empirical section firstly with materialist and ideational approaches extrapolated from the critical IPE literature, before suggesting that a Gramscian approach sensitive to changes in class relations highlights in a clearer way the interaction between material and ideational factors in the Egyptian reform process. Lastly, the third section discusses the third form of articulation, interpreted as a determination on the first instance on the part of materiality that leaves ideas and ideologies substantial relative autonomy.

6.2. Instrumentality, organic intellectuals and ideology: empirical study

Because of the holistic character of policy paradigms, which by their very nature tend to encompass the whole policy field to which they refer, the sectoral focus of the two previous empirical chapters will simply not do here. Instead, this section discusses the timing and forms in which two typically neoliberal norms on economic policy – namely: private sector inherently more efficient than public sector, and capital account liberalisation as desirable – have been internalised in the circles involved in Egyptian economic policy-making. If these two norms have become 'taken for granted and unamenable to scrutiny as a whole' (Hall 1993: 279), what we may see emerging in economic policy-making might amount to a new ideology, superseding the previous *étatist* paradigm while at the same time absorbing some of its elements.

This focus on the forms of policy change is complemented, and indeed anticipated by, the study of organic intellectuals, that is: those agents undertaking '[t]he task of clarification and organisation, through which ideas become a material force' (Bruff 2009: 49). In the Egyptian case, two economic think tanks – the Economic Research Forum (ERF) and the Egyptian Center for Economic Studies (ECES) – are taken as the most important organic intellectuals in the past two decades, with the aim of instilling a 'reformist' view within the national debates on economic policy, which – despite *infitah* – by the end of the 1980s still revolved around the idea of the state as the central actor in the economy.

Thus, the first part of this section discusses how and when these two think tanks were established, their relations with the business community, the NDP and the regime, and the content of their knowledge production, mostly in the form of working papers. The second part then focuses on the two key norms of neoliberalism mentioned above and attempts to establish whether their internalisation led to a change in the policy paradigm and eventually in the 'common sense' with respect to how the Egyptian economy should be run.

6.2.1. *Organic intellectuals: manufacturing consent for neoliberalism?*

As seen in the previous chapter, the participation of Egyptian actors to the design of policies during the first years of structural adjustment was rather limited. Instead, the pattern resembled more a situation where the government would either accept, delay or reject to implement measures whose content was decided elsewhere. Beyond the individual inclinations of some members of the executive, this limited participation suggests that in this first phase it was merely the need to comply to drive Egyptian economic policies. With respect to the wider public sphere, in fact, free market ideas did not have much currency. Rather, the main public intellectuals tended to combine views largely derived from economic nationalism,¹⁵⁰ either in the ISI form pursued by Nasser or in the export-oriented form driving the Asian tigers.¹⁵¹ In this respect, the economic policy debate in Egypt was not significantly

¹⁵⁰ As I mentioned in Chapter 3, economic nationalism had an established tradition in Egypt well before the coup (EzzelArab 2002).

¹⁵¹ Saad Eddin Ibrahim, founder of the Ibn Khaldun Center for Development Studies and one of the most prominent Egyptian intellectuals, and Gouda Abdel-Khalek, economist at Cairo University, leaned closer to the first position; Galal Amin, professor of economics at the American University in Cairo (AUC) and the most brilliant populariser with respect to economic issues in the country, was arguably the strongest advocate of the Asian model.

different from what could be seen in other developing countries with an *étatist* tradition, such as Mexico, before the rise of the 'money doctors' (Babb 2005).

The two most important economic think tanks – ERF and ECES – were created respectively in the early 1990s. The former was from its very inception a region-wide research centre, covering the whole Arab world, Iran and Turkey. Most of its donors were, and still are, foreign foundations and institutions, including the Ford Foundation, which contributed \$1 million to the endowment fund, the United Nations Development Programme (UNDP), the World Bank, the EU-funded FEMISE (*Forum Euroméditerranéen des Instituts de Sciences Économiques*), and the Arab Fund for Economics and Social Development.¹⁵² Broader geographical focus and international sponsorship were key in removing ERF from the local economic policy debate, thus reducing the influence of the various components of the regime. This also had two further consequences. Firstly, most of the academic production was not immediately policy-relevant, from the working paper series to the recently launched semestral publication, *Middle East Development Journal*. Secondly, the heavy reliance on external funds translated into a tendency to employ economic and especially developmental models prevalent on the international scale, thus relying heavily on the principles of the Washington and post-Washington Consensus. The analysis of the theoretical foundations of the ERF working papers series in Figure 6.1 shows the ever increasing relevance of neoclassical economics, in its combination of neoclassical theoretical models and econometric models trying to design the correct 'experimental' apparatus to correlate theoretical principles with empirical data (Maki 2011: 1-5).

The establishment of ECES has a very different story. It was set up in 1992 exactly with the aim of being policy-relevant by the various components of the Egyptian business community, including several prominent members of the *infitah* bourgeoisie.¹⁵³ It is thus not a surprise that ECES became in the late 1990s and early

Interviews with Gouda Abdel-Khalek, professor of economics at Cairo University, Cairo, 27 March 2010, , and Galal Amin, professor of economics at the American University in Cairo, Cairo, 29 March 2010.

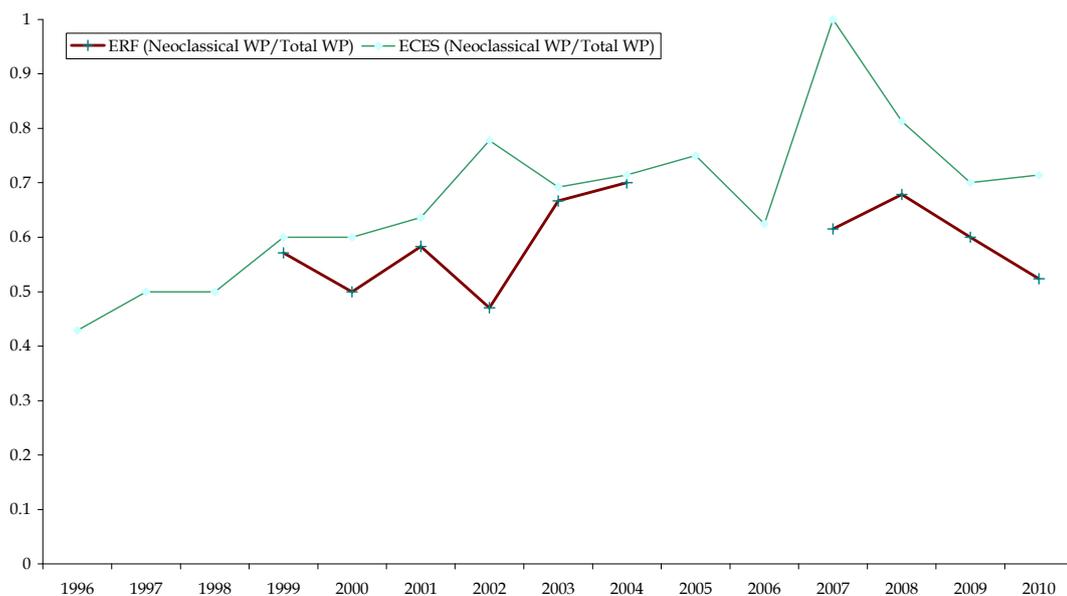
¹⁵² For a list of the main ERF sponsors today, see:

http://www.erf.org.eg/cms.php?id=about_erf_partners_donors.

¹⁵³ All the main sectors of the economy were represented in the ECES board, from food processing (Rashid Mohammed Rashid and Shafiq Boghdady) to textiles (Mohammed Khamis and Galal Zorba), from electronics (Ahmed Bahgat) to the car industry and steel production (Mohammed Mansour and Ahmed Ezz), from banks (Adel El Labban for the

2000s the centre where the policy platform of the 'reformist' wing of the ruling bloc was elaborated, under the theoretical leadership of Mahmoud Mohieldin, then senior economist at ECES and advisor of Boutros Ghali at the Ministry of Economy, and the political leadership of Gamal Mubarak, himself a member of the board.¹⁵⁴ By 2004, Mahmoud Mohieldin and Rashid Mohammed Rashid were both ministers, Gamal Mubarak was head of the NDP Policies Secretariat and Ahmed Ezz of the Budgetary and Monetary Commission of the party. Thus, looking at ECES means analysing the heart of the main organisation of the NDP faction that emerged victorious from the political struggle in the party. Figure 6.1, shows that the ECES working papers series also relies heavily on neoclassical and new classical assumptions.

Figure 6.1 – Neoclassical economics in ERF and ECES working papers¹⁵⁵



Thus, what can be seen in the work of the two think tanks is a division of labour within the same economic outlook. On the one hand, ERF mostly focused on the

Commercial International Bank) to local representative of consultancy giants such as Mackenzie and KPMG.

¹⁵⁴ Frederik Richter epitomised the role of ECES in the clearest possible way, saying that its main task was 'to formalise the NDP's economic policies and to feed private sector promotion with macro-economic expertise based on an IMF and World Bank oriented thinking' (2006).

¹⁵⁵ ECES working papers published before 1996 and ERF working papers published before 1999 and between 2005 and 2006 cannot be accessed from their websites.

theoretical aspects, and this allowed for the inclusion of perspectives differing from the mainstream, particularly with respect to policies against poverty and unemployment.¹⁵⁶ On the other hand, ECES had the more practical task of translating into policies the general principles guiding government's action, and – once policies were adopted – to evaluate their impact. These evaluations can be – and usually are – critical with respect to the effectiveness of the measures implemented, but very rarely go as far as contesting the fundamental guidelines inspiring those policies.¹⁵⁷

The theoretical and more policy-oriented work by ERF and ECES was complemented on a more accessible level by *Business Monthly*, the magazine published by the American Chamber of Commerce in Egypt (AmCham). With its 'fact-filled' articles about the benefits brought about by reforms in terms of investment opportunities for the business community at large, this magazine was extremely successful in popularising the emerging ideology and in creating an 'esprit de corps' within the Egyptian business community that historically had been divided across sectoral and generational lines.¹⁵⁸ Indeed, anecdotal experience from my fieldwork in Cairo suggests that it is very rare to find an English-speaking Egyptian businessman without a copy of *Business Monthly* in his office.¹⁵⁹

At the same time, this emerging economic wisdom found its way within the ruling party. The Eight General Congress of 2002 was the tipping point in this respect, not only because Mohieldin and Gamal Mubarak become respectively co-chairman of the Economic Committee and head of the Policies Secretariat, but most importantly because a different political discourse emerged, characterised as 'new thinking' (*fikr al-jadid*) centred around ideas such as 'active centrism' and 'market reforms' (Aidi 2009: 168). This constituted the discursive basis and the policy platform for the unification of at least two generations of self-styled 'reformists'.¹⁶⁰

¹⁵⁶ The works edited of Ragui Assaad on the evolution of the Egyptian labour market are probably the best examples of this pluralism (2002 and 2009).

¹⁵⁷ Interview with Galal Amin.

¹⁵⁸ Interviews with Ahmed Kamaly, director of the Egyptian National Contact Point with the Organisation for Economic Cooperation and Development (OECD), Cairo, 19 April 2010, and Mohammed Gamal Moharam, president of AmCham, Cairo, 29 April 2010.

¹⁵⁹ I am using the masculine purposefully here, as with very few exceptions – none of which I had the chance to meet during my stay in Cairo – the Egyptian business class is composed of men.

¹⁶⁰ The two groups were respectively labelled by Abdel Moneim Said, head columnist of *Al Ahram Weekly*, as 'the liberals with the past', including people entering their fifties and led by Youssef Boutros Ghali, and 'the new new guard', led by Gamal Mubarak and including all

To sum up, in the early 1990s the ideational drive towards reforms arrived mostly from the outside, and from international organisations particularly, with the government mostly reacting to such pressures, either fine-tuning policies, implementing them selectively or rejecting them altogether. In the same years, the establishment of two major think tanks finally provided local sounding boards for ideas that until then had not gained much currency in Egypt. In the following decade, neoclassical approaches came to dominate the discipline of economics. This inevitably restricted the boundaries within which academic debates about economic policy took place, leading to the emergence of a neoliberal common sense within the Egyptian economics profession.¹⁶¹ One should not forget that the move from policy paradigm to common sense and ideology means bringing back to centre-stage the central issue of *cui bono*, thus asking which social groups benefit the most from the emergence of this new ‘conception of the world’, at least as far as economic activity is concerned. If these think tanks were successful as organic intellectuals of the rising capitalist oligarchy one would expect to see this common sense in the profession has also translated into policy change. The task of the next subsection is to understand if this was the case.

6.2.2. Paradigm change: instrumentality, belief and cognitive biases

This subsection focuses especially on the internalisation of two quintessentially neoliberal norms on the part of Egyptian economic policy-makers. The first norm regards the consideration of the private sector as inherently superior to the public sector in terms of welfare maximisation. This consideration stems from the neoclassical argument which sees market mechanisms as the key to the achievement of optimal outcomes. The second norm is the preference for capital account liberalisation, which must be analysed as a normative construction, as ‘it is difficult to make a case for capital account liberalisation on a purely evidentiary basis’ (Chwieroth 2010: 12). As this second norm applies exclusively to the financial sector, the reader will excuse me if the discussion here is somewhat skewed towards this sector. After all, financialisation was one of the four processes characterising the

the emerging business tycoons as well as Mohieldin and Moneim Said himself as chief ideologues (quoted in Collombier 2006: 9, ft. 20).

¹⁶¹ Whilst there is not a one-to-one correspondence between neoclassical economics and neoliberal policies, the assumptions of the former significantly foreclose economic policy options, and thus constitute an important precondition for the promotion of neoliberal policies.

definition of neoliberalisation borrowed from Harvey (2005: 159-65). The internalisation of these norms is one of the two aspects of the neoliberal common sense at work, the other being the analysis of policy change in the three sectors under consideration. In this respect, the focus is on the pieces of legislation with the strongest impact on the structure of each sector: Law 96 of 1992 for agriculture, Law 203 of 1991 for industry and Law 88 of 2003 for finance.

Agriculture. The analysis of Law 96 of 1992 does not help much in understanding how the normative preference for the private sector came about. After all, despite giving significantly more power to cooperatives, Nasser's land reform never put into question the principle of private ownership of land. Yet, the tenure reform witnessed a fundamental shift in productive relations in the countryside which truly amounts to a paradigm change (ARE 1992). Law 96 of 1992 aimed at dismantling social relations as they had developed in the countryside since the 1952 coup, amounting to what some authors called a 'counter-revolution' (Bush 2002). By effectively giving land back to landlords, the reform redesigned the boundaries within which agricultural policies would be defined, excluding *a priori* alternative measures to tackle the issue. As Mitchell put it, '[t]he redistribution of agricultural land offered a workable and proven means of creating sustainable rural livelihoods. [...] But in official studies of the obstacles to Egypt's further economic development, the question of additional land reform was simply never raised' (2002: 221).

Despite not directly touching upon the private/public divide, Law 96 of 1992 provided the setting for the introduction of market relations in the Egyptian countryside. Attached to this came the inherent bias in favour of the private sector, visible for example in the wide-ranging reforms of input provision, which required a withdrawal of public sector provision at controlled prices towards both credit and material inputs such as crops and fertilisers being provided by private actors at market prices (Bush 1999: 68). This move was inspired by the crowding out thesis, by which excessive state intervention was preventing private actors to enter these markets. Such an argument was in turn grounded on the belief that the public sector cannot act efficiently in this context, thus making its withdrawal necessary. Other than being theoretically questionable, this argument was also proved empirically incorrect by subsequent developments. The downsizing of PBDAC led to substantial credit shortage, whereas private providers of fertiliser created a cartel

which brought the prices of their products well above what was sustainable for the average Egyptian farmer (Ibid: 68-9). Rather importantly, the reintroduction of state provision came back not as a restoration of the previous system, but rather had to be qualified in the light of the new paradigm. This happened in two ways. Firstly, the return of public suppliers alongside private ones was announced as a temporary measure (MEED 1997), thus in fact accepting that this was an unusual state of affairs, with further moves towards private provision to come along the way. Secondly, the main motivation for this intervention was admittedly extra-economic, having to do with increasing social unrest in the countryside and thus with the risk of wider political instability. In other words, the dispensation from market mechanisms was justified on emergency grounds.

Industry. Moving on to manufacturing, Law 203 of 1991 is arguably the clearest case of paradigm shift, and one that has at its very core the relation between public and private sector (ARE 1991). Since the 1952 coup, industrial policy had always tried to balance developmental and equity concerns, and strong state presence was considered essential for this aim. By setting conditions for the privatisation of more than three-hundred SOEs, the new law effectively constituted a policy turnaround, to the point of being challenged - unsuccessfully - before the Supreme Constitutional Court for going against the Constitution, which in Art. 59 mandates that 'safeguarding, consolidating and preserving the socialist gains shall be a national duty' (Hill 2003: 89).

Spanning both agriculture and industry, another norm not exclusive to neoliberalism yet integral to it is trade liberalisation. By the beginning of the 2000s, the norm of trade liberalisation had penetrated into the writings of respected Egyptian economists in a rather uncritical form. In a 2003 ECES working paper, Amal Refaat discussed the reduction of tariff barriers to industrial goods in the 1994-2002 period without ever questioning the hidden assumption that trade liberalisation had been inherently good for the Egyptian economy (2003). Thanks to WTO membership, free trade had become the inescapable endpoint with respect to commercial relations, and all other measures would have to stem from this assumption, effectively reproducing the primacy of exchange over production discussed by Abdel-Khalek (2001: 42). Such a primacy was also reproduced in the political language, with the ministries of industry and trade being merged into the

Ministry of Trade (i.e.: exchange) and Industry (i.e.: production). In the words of Galal Amin, this renaming of this ministry was the clearest statement of the policy mission inspiring the work of Rashid.¹⁶²

Another interesting discursive aspect of paradigm shift was the sidelining of the argument that state interventionism might indeed support industrial and eventually economic development, strongly supported by the East Asian case. In the local policy debate the tension within an economic strategy focused on export-orientation and at the same time advocating a retreat of the state from industrial policy started to be debated particularly among scholars (Amin 2000; Abdel-Khalek 2001). In 2005, an ECES paper put to rest this argument by suggesting that, albeit extremely successful in itself, the East Asian model could not be reproduced elsewhere, and even less in the Middle East, because of its cultural specificity, and because it increased corruption and produced disincentives to the acquisition of skills in the financial sector, and neither of these features was deemed sustainable in a world where capital mobility had become the starting assumption (Noland and Pack 2005). Interestingly, the last section of this paper, titled 'Are there positive lessons from the East Asian experience?', collapsed its policy recommendation into a sort of 'Washington Consensus +', where ERSAP suggestions were enriched with bland considerations on the importance of institutional quality and human capital.¹⁶³

Finance. In the banking sector the inherent preference for private over public sector actors, while accepted as an economic argument, encountered fierce resistance during most of the 1990s. The most glaring signal in this respect is that Law 203 of 1991 did not include public sector banks among the companies that had to be restructured and eventually privatised. Under strong IMF pressures, the four public sectors banks were requested to reduce their shares in joint-venture banks to less than 51 per cent in 1994, and then to less than 20 per cent in 1996. Whereas they complied entirely with the first demand, the second was almost entirely disregarded (Mohieldin and Nasr 2003a: 15-6).

¹⁶² Interview with Galal Amin.

¹⁶³ More specifically, for Noland and Pack the lessons to be drawn by Middle Eastern countries from the East Asian miracle are: the importance of macroeconomic stability, low inflation and competitive exchange rates (all aspects of the Washington Consensus), high rates of accumulation of both human and fiscal capital, education, microeconomic and institutional quality (2005: 18-22).

Yet, the argument of state intervention, and even more ownership, in the financial sector had become one of the beacons of the 'reformist' wing within the NDP. Whereas it is difficult to ascertain whether their rise was related to the power of their economic ideas or vice versa, there are little doubts about a strong correlation between the two. The first page of an ERF working paper by Mohieldin and Nasr is arguably the strongest statement of the negative impact of state intervention in the banking sector ever seen in the Egyptian political scene. It is worth quoting directly from the text to give a sense of its flavour (Ibid: 1):

[P]ublic ownership of banks tends to be associated with financial repression, poorly developed banking system, higher interest rate spreads, slower financial development, and lower economic growth. Moreover, empirical evidence shows that public banks seemed to generate enormous losses that impose a huge burden on the economies. Such problems that are inherent in banking system dominated by public ownership have led many countries to considering privatising their public banks. Experience has also shown that public banks can contribute to banking crises by permitting political objectives to distort market operations. [...] Public banks are more likely to allocate capital to low productivity investments. Moreover, public banks tend to have a lower incentive to identify problem loans, and to minimise costs.

With such strong opinions on the matter, it should not surprise that with Mohieldin as minister of investment and Nasr as supervisor for the World Bank of the financial sector reform programme,¹⁶⁴ the government managed to divest virtually all the public sector shares in joint-venture banks and to privatise the smallest of the four public sector banks.

The bias in favour of capital account liberalisation did not find the same resistance, and over the two decades of reforms it penetrated into the Egyptian economic think tanks, and then in the relevant ministries and regulatory authorities. Pockets of resistance in the research community and in the policy-making world were gradually marginalised and excluded from the debate on the direction that the

¹⁶⁴ Sahar Nasr was also a NDP member, and has also been part of the economic policy committee while Mohieldin co-chaired it. She received a PhD in economics from Cairo University, with a thesis on banking sector reform under the supervision of Hanaa Kheir-el-Din, ECES's former direction, and Mahmoud Mohieldin, his counterpart in the negotiations for financial sector reforms loans (Interview with Sahar Nasr, senior financial economist for the Middle East and North Africa at the World Bank, Cairo, 20 June 2010).

Egyptian financial sector should have taken. A study of the working papers published by ERF and ECES between 1994 and 2010 demonstrates this inbuilt bias in favour of capital freedom (see Table 6.1). Sixty-three out of seventy-two finance-related papers, or 87.5 per cent, take for granted, either implicitly or explicitly, the assumption that free capital mobility is desirable. Eight of the nine ‘dissident’ papers were written either before 1997 (three of them) or in the aftermath of the global financial crisis (five). Thus, it would seem that in the period between 1997 and 2008 the Egyptian research community took for granted the desirability of capital freedom.

Table 6.1 - Capital mobility and think tank production¹⁶⁵

Year	ERF		ECES		Total	
	For	Against	For	Against	For	Against
1994	2	0	X	X	2	0
1995	1	1	X	X	1	1
1996	1	1	0	0	1	1
1997	1	0	0	1	1	1
1998	0	0	4	0	4	0
1999	1	0	1	0	2	0
2000	5	0	1	0	6	0
2001	3	0	4	0	7	0
2002	3	0	0	0	3	0
2003	4	0	2	0	6	0
2004	6	0	0	0	6	0
2005	X	X	2	0	2	0
2006	X	X	0	1	0	1
2007	2	0	2	0	4	0
2008	9	2	1	1	10	3
2009	3	1	1	0	4	1
2010	3	1	1	0	4	1
<i>Total</i>	44	6	19	3	63	9

With respect to policy change being characterised as paradigmatic, the best case in point is arguably the new central banking law approved in 2003, which entirely transformed the goals of the CBE. Law 120 of 1975 regulated the CBE’s role rather vaguely by giving it ‘the powers for the management of its affairs and for the regulation of monetary, credit and banking policy and the supervision of its implementation’ (ARE 1975: Art. 7), then listing the instruments the CBE was

¹⁶⁵ All the working papers published by the two think tanks dealing with all aspects of finance, from monetary policy to banking regulation to Islamic banking, were analysed individually in order to discover how they related to the norm of capital account liberalisation.

endowed with, but without making any mention of the goals to be pursued. In practical terms, monetary policy was effectively at the mercy of the borrowing needs of the government. This was altered by Law 88 of 2003, with the CBE finally being given a clear goal: price stability.¹⁶⁶ This followed an increasingly popular trend in the developed world, moving away central banking from Keynesian consideration of a trade-off between unemployment levels and inflation as exemplified in the Phillips curve, and towards a monetarist approach based on the idea that in the long-run market actors adapt their expectations to a higher level of inflation, thus leading to cases of both high inflation and high unemployment (Campbell 2001: 168-70).

The EU-supported move towards Basel II implementation is another significant case of how the norm of capital freedom has become the hidden assumption also with respect to the regulation of the banking sector.¹⁶⁷ The Basel II framework was designed to cope with regulatory problems in the banking sector of developed countries. Griffith Jones identifies five major areas on which the Basel II agreement either neglected to take into account the needs of developing countries or risked to create further problems in their banking systems (2007: 2-3): neglect of key sources of banking vulnerabilities in developing countries, such as currency mismatches; overall reduction of credit levels; reinforcement of pro-cyclicality of banking lending, with following increase in volatility; disincentives to lend to SMEs; competitive advantage for more internationalised banks, which in the case of developing countries usually means foreign banks.

Table 6.2 shows the results of a survey conducted on the members of the Basel II task force at CBE on the potential criticalities of the Basel II framework for developing countries. Three out of five aspects were considered of little or no relevance by the vast majority of CBE officials surveyed, and only the first and the last one were considered by the majority as respectively very important and

¹⁶⁶ Art. 5 states: 'The Central Bank shall work on realising price stability and banking system soundness, within the context of the general economic policy of the State' (ARE 2003).

¹⁶⁷ To make it brief: in order to ensure the soundness of the banking system, the Basel agreements put capital adequacy standards on the shoulders of banks, through a complex system that weighs the risk of different types of capital held by banks. This approach starts from the very assumption that capital flows are not regulated, and that once such flows are free, it is up to the banks and their regulators to ensure that capital flows do not endanger the stability of the banking system.

important.¹⁶⁸ The last question of the survey attempted to grasp the awareness of CBE's officials of the inbuilt bias in favour of capital account openness characterising the Basel II agreement. On this point, only three out of fourteen surveyed task force members thought that capital account openness could entail significant risks for the Egyptian financial sector.

Table 6.2 – CBE's task force perceptions on Basel II risks for developing countries

<i>Issues</i>	<i>Relevance</i>					<i>CBE official</i>
	<i>Not at all</i>	<i>Marginal</i>	<i>Relative</i>	<i>Significant</i>	<i>Top</i>	
FX exposure of banks	0	0	3	6	5	Relative
Reduction of credit levels	1	8	4	1	0	Marginal
Increased volatility	4	6	2	1	1	Marginal
Difficult lending to SMEs	3	8	1	2	0	Relative
Advantage for foreign banks	0	0	4	5	5	Not at all
Capital account openness	3	5	3	3	0	Marginal

Looking both at overall policy change and the penetration of two specifically neoliberal norms, one could see the increasing influence of neoliberalism on the Egyptian economic reform process. In agriculture this influence mostly took two forms. On the one hand, the shift in property relations, while not being directly related to a neoliberal norm, still relied implicitly on the idea that the guarantees hitherto provided to small tenants by the state ought to be removed to allow market mechanisms to work adequately. This imposition of market relations was complemented, on the other hand, by the normative preference for the private sector, visible in the attempts to end public sector provision of inputs, and then in the need to find extra-economic justifications for the restart of public provision of fertilisers and crops. In manufacturing, while enshrined already in Law 203 of 1991, the preference for the private sector encountered substantial resistance also within the ruling bloc, and this dissent was put to rest only during the second decade of

¹⁶⁸ Understandably, the foreign exchange exposure of domestic banks hit a raw nerve, as the black currency exchange market, which created so many troubles to the official economy, disappeared only during the last decade. As for the relevance of the competitive advantage that Basel II might give to foreign banks, the European Central Bank (ECB) permanent representative in Cairo maintained that this is probably due to some leftovers of statist banking that still do have a weight within CBE. Interview with Hervé Leclerc, ECB permanent representative in Cairo, 23 June 2010, Cairo.

reforms, as the 'reformist' wing became predominant in the political arena. With respect to finance, the norm of capital freedom was complied with in terms of policies in the very early stages of reforms and the analysis of working papers shows how by the end of the 1990s was largely taken for granted by the Egyptian research community. On the contrary, the privatisation of public sector banks was opposed for the most of the 1990s, and only in the following decade, and particularly after 2003, it became a linchpin of Egyptian economic policies.

If this is the pattern of internalisation of neoliberal norms, how is one to relate it with material pressures and constraints? In the case of both agriculture and manufacturing one could see how in the first phase neoliberal policies were largely imposed from the outside, with material needs on the other hand being the main concern of Egyptian policy-makers. These material needs could be internal, as for example in the form of compensation for the landed elite dispossessed by Nasser, or external, for instance regarding compliance with IFIs conditions in order to achieve debt cancellation from Paris Club countries. Yet, in both cases, the imposition of neoliberal ideas ended up producing policy models that became more relevant over time. Material factors and ideas interacted in a significantly different way within finance with respect to capital freedom and bank privatisation. In the former, resource dependence, in the form of needing foreign capital, translated into accepting prevailing knowledge in capital-rich countries. In the latter, the 1990s were characterised by strong resistance largely on material grounds (i.e.: fear to lose control over the historically vital banking sector), but the tide changed in the following decade, and this despite the fact that material conditions did not seem to lead in this direction. Thus, in this case more than others ideational change still begs for an explanation.

6.3. Power, ideas and class relations: comparing theories

In the light of what has been discussed in the previous section, it is now time to evaluate the value of existing approaches to explaining the interaction of material and ideational factors in critical IPE. A first set of approaches, ranging from the Amsterdam School to Robinson and his modified version of world system theory, can account convincingly for material constraints and pressures, both national and international, and for the way they drive government choices, but tend to underestimate the role of ideas beyond the function of legitimising specific material

interests and objectives. A second strand in the literature, largely referable to constructivist and Coxian approaches, is extremely successful in tracking how embracing some ideas, however imposed in a first phase, ends up reshaping cognitive boundaries and thus the perception of interests, but also of what are the problems and what their potential solutions. Yet, they are much less successful in accounting for why certain ideas and not others become prevalent. By contrast, it is argued that a Gramscian approach based on articulation can keep in both material influences and the relative autonomy of ideas particularly in the second phase of the reform process.

6.3.1. *The materialist case: the functionality of ideas*

The first set of accounts includes those focusing on the role of the transnational capitalist elite as well as core-periphery relations with respect to critical IPE.¹⁶⁹ According to these accounts, the modifications experienced by the Egyptian political economy over the past two decades are better understood in relation to a changing constellation of material constraints and pressures, both on the international and the national scale. It is these constraints and pressures that have pushed Egypt on its specific reform path rather than the neoliberal ideas associated with these material trends. Whereas the latter are not necessarily seen in strictly instrumental terms, they still tend to be considered as functional to the pursuit of a specific project originating from material conditions and driven by material goals, be they the ever-greater integration of Egypt into the capitalist world economy made possible by neoliberal globalisation or more simply regime survival under changed class relations inside and outside Egypt.

First of all, it might be helpful to differentiate material factors into constraints and pressures. On the one hand, material constraints refer to existing conditions which are perceived as structural, and thus unchangeable in the short term, by agents on the national scale. In the Egyptian case, the very existence and spread of neoliberal globalisation, with its corollary of increased exchange of goods and movement of capitals, can be considered as an existing material constraint. On the other hand, though often deriving from such constraints, material pressures are

¹⁶⁹ Also area studies starting from an assumption of instrumental rationality, such as Kienle (2001) and Schlumberger (2004), belong to this category. However, as this study aims to contribute primarily to critical IPE, I decided to focus on those approaches only.

analytically different as they do not simply prevent some courses of actions, but rather push agents on the national scale towards a specific direction among those allowed by existing material constraints. The clearest example of this is probably the conditionality attached to IMF and World Bank loans, and their direct relation with debt rescheduling and forgiveness.

Materialist accounts are extremely well-suited to identify the existence of these constraints and pressures, and to show how they are able to limit political action on the national scale. For example, with respect to the financial sector, the insistence on the combination of unsustainable debt levels, the need for cash and thus the need for foreign capital are crucial to understand capital account liberalisation, and more generally a wide range of financial sector policies adopted by developing countries in the past two decades. At the same time, these accounts are also successful in pointing out how changing class relations produce changes on the ideational level. For those focusing on the transnational capitalist class, the focus is on the material implications of promoting a form of globalisation driven by neoliberal norms when the main beneficiary of such ideas is the financial fraction of capital (Robinson 2004: 51-2). This is something that can easily be seen in the Egyptian case with respect to the promotion of capital account liberalisation, and to the development of what Galal Amin calls 'FDI fetish'.¹⁷⁰ In the case of core-periphery approaches, the emphasis is instead on the national class structure, and thus on the tendency on the part of the different components of the ruling bloc to support reforms that are seen as serving their interests. This would for example explain the relative ease with which the shift in class relations in the countryside was effected, as it pleased both the rentier and the *infatih* components of the ruling bloc. At the same time, it also suggests that rifts between these two components might be the reason behind the difficult road encountered by the other main neoliberal norm, as the privatisation of SOEs which would have clearly favoured the private business component at the expense of the public sector component. In fact, the full implementation of this norm took place only when the business-oriented group was able to take control of the NDP first and then to become extremely influential also within the government.

On the other hand, these accounts tend to give ideas a backseat role, considering them as little more than mediated expressions of class relations. By doing this, they are unable to adequately address two important aspects that have

¹⁷⁰ Interview with Galal Amin.

emerged from the analysis of the empirical material. Firstly, materialist approaches do not account convincingly for those cases in which specific ideas outlive the material conditions originally producing them, for instance with the disappearance of the material pressures promoting them, and despite that material constraints would allow for alternative policy paths. In the Egyptian case, this happened for example with the relaunch of privatisations in the 2000s. The most common objection to this critique is that these neoliberal ideas are subscribed to because they are expected to yield material benefits to specific components of the ruling bloc. Yet, this argument is dependent on the acceptance of the neoliberal paradigm, as it is underpinned by the belief that neoliberal policies are the ones most likely to best serve the interests of the rising capitalist oligarchy. In other words, materialist approaches underestimate the link between adopting, however instrumentally, a specific set of ideas, and the possibility that these ideas will shape perceptions, thus influencing interest formation, but also the identification of problems, of potential solutions and of expected outcomes of a given process.¹⁷¹

Secondly, materialist perspectives tend to neglect how the emergence of neoliberalism as an ideology played a vital role in making the political battle between the *infatih* bourgeoisie and the public sector an asymmetrical one. The rise of neoclassical economists as the best qualified group to provide advice on how the economy should be run dramatically redefined the boundaries within which economic policy could be conducted (Fourcade-Gourinchas and Babb 2000). This modification effectively turned the table against the public sector. If the name of the game had become market relations with a preference for private actors as self-interested rational welfare maximisers, then the options available to the army and the bureaucracy were limited. They could have accepted the emerging order and thus their gradual marginalisation within the ruling bloc; or they could have decided to play by the new rules, but with the disadvantage of representing the public sector within a changing economic system favouring by definition private actors; or lastly they could have taken their chances by pushing towards a rupture that would restore their prominent position within the ruling bloc. As we will see in the conclusion, the latter option is one of the possible interpretations of how the army reacted to the popular protest against Mubarak in January 2011.

¹⁷¹ As Manea (2010: 9) put it, ‘the “instrumental” use of social relations by social actors creates the conditions for such social relations and practices to inform future actions’.

6.3.2. *The ideational case: ideas all the way down*

A second set of approaches, ranging from neo-Gramscian studies to more mainstream constructivist IPE, would maintain that the modifications experienced by the Egyptian political economy are mostly related to a change in ideational trends, firstly on the international scale, with the emergence of neoliberal hegemony, and then also on the national scale. By the end of the 1980s, the prolonged fiscal crisis had produced perceptions of uncertainty and vulnerability, putting into question the existing wisdom about the positive role of the state in stirring economic development. The economic ideology which had gained hegemonic status on the international scale, based exactly on a critique of state intervention in the economy, provided a set of solutions at least worth experimenting. Whereas in the first phase the adoption of neoliberal ideas might have been instrumental, over time these began to influence the way in which relevant actors – in the academic, business and policymaking community – perceived economic processes. With neoclassical economics becoming the basis of the ever more prestigious economic profession, neoliberalism acquired hegemonic status also on the national scale, carrying a force of its own which was not reducible to material factors, but rather was able to redefine them through cognitive shortcuts and biases guiding policies and thus impacting on materiality.

Ideational approaches are able to highlight at least two aspects that largely go unnoticed for materialist accounts. Firstly, they provide a convincing explanation of how ideas shape perceptions of what is deemed possible by relevant actors in economic policymaking. This was most visible in the already discussed cognitive biases characterising policy-making in agriculture. In spite of the fact that several experts had suggested that in developing countries land redistribution might have been beneficial for agricultural development, the acceptance of the state-market dichotomy implied that forms of direct state intervention, such as a law redistributing land, would have meant an interference in the market mechanisms believed to produce welfare maximisation. Thus, the acceptance of the inner primacy of market dynamics prevented the consideration of alternative options. Something similar also happened in finance with respect to financialisation in general and more specifically the acceptance of Basel II regulations in the banking

system. As seen in the survey on the CBE's task force on Basel II, taking capital account liberalisation as desirable and then moving towards a regulatory system of the banking sector based on this very assumption prevented from appreciating the risks implicit in the policies implemented. In this case, instead of preventing the identification of policy alternatives, cognitive biases led to an underestimation of the potential side effects related to the adoption of specific policies in a context different from the one in which they were elaborated.

Secondly, accounts focusing on the autonomous role of ideas are successful in suggesting why in some cases policies inspired by neoliberalism persisted irrespective of material constraints and pressures. Privatisations, both in the manufacturing and banking sector, are the best case in point here. Whereas in the first phase of reforms divestitures of SOEs had proceeded at a snail's pace,¹⁷² it is when material pressures weakened, both internationally from the IMF and the World Bank and nationally with respect to sustainable debt levels, that the government embraced wholeheartedly the privatisation plan. In this respect, the objection that the material constraint of neoliberal globalisation was still there is a relatively weak one, as it is exactly during the 2000s that countries which had recently defaulted such as Argentina or which had experienced severe currency crises such as Brazil started to grow at sustained rates following admittedly heterodox policies, mixing up the lessons from the East Asian crisis with their national peculiarities. Thus, in these cases, the weakening of the grip of material conditions would have allowed for different policies, and it was mostly belief in the tenets of neoclassical economics, and in policies stemming thereof, which drove Egyptian policy-makers.

Whereas ideas-focused approaches highlight the weaknesses of materialist analyses, they fail in providing an adequate account in at least two crucial respects. In the first place, tying the adoption of neoliberal ideas solely to perceptions of uncertainty and vulnerability is not enough. On this point, Coxian accounts go further than mainstream constructivists, by pointing to the relevance of class relations underpinning neoliberalism. They would for example suggest that neoliberalism on the international scale has been successful because it is framed in such a way as to favour the most mobile form of capital (financial) over the other forms in the circuit of capital accumulation (industrial and commercial). However,

¹⁷² Roughly until 1996 in industry and until 2004 in the banking sector.

with their focus on the emergence of hegemony in the core and then its propagation into the periphery, Coxian accounts would fail to account adequately for the mobilisation of class fractions in Egypt, with the uncertainty and vulnerability correctly highlighted by ideational approaches providing an opportunity for the framing of a specific project aiming at empowering private capital owners. In other words, the fundamental question of 'cui bono' (Strange 1988), which should characterise political economy, is either neglected altogether, as in mainstream constructivist IPE, or answered only partially, with reference to the emerging *nébuleuse* on the global scale (Cox 1992: 27).

The second main problem of ideational approaches is the following: if one accepts that compliance with neoliberal ideas in Egypt was instrumental during the first phase of reforms, as it appears from the empirical material, where is it that we place the tipping point where ideas became a force of their own and a driver of economic change? In other words, when one accepts that ideas arise from material conditions, and then suggests that ideas do take a life of their own and become an autonomous form of causation, it is important to understand what allows such ideas to detach themselves from materiality. Referring to the power of ideas only might not be enough, particularly in the light of the political battle at the heart of the NDP, which suggests that until that moment alternative options might have been considered, and only the defeat of the *étatist* wing allowed for the triumph of neoliberal ideas in the Egyptian declination. On this issue, it might be worth paying more attention to transformations in class relations, and how this might feed back on the role of ideas, as the Gramscian approach based on articulation.

6.3.3. *The Gramscian case: materiality meets ideas*

Understanding why and how neoliberalism, and not something else, kicked off requires a careful appreciation of material conditions, and especially of class relations both on the national and international scale. On the latter, the return of global capital since the late 1960s had significantly empowered the financial fraction of capital, leading it to become a vocal supporter of worldwide liberalisation of capital flows (Helleiner 1994; Robinson 2004). On the national scale, the fiscal crisis of the late 1980s led to both unsustainable debt levels and most importantly cash shortage for the regime, with the ruling bloc feeling threatened for the first time since the 1977 bread riots. While on the one hand the crisis led to accepting

conditions imposed by IFIs to relieve the pressure, on the other hand the crisis deepened the rift within the ruling bloc on what were clearly class, more than generational, grounds. The intersection of these elements led to a first phase of reforms mostly based on compliance with, rather than outright acceptance of, neoliberal recipes. A notable exception in this respect is the case of agriculture, where the new paradigm was successful from the outset. This might be related to the fact that there was no serious clash between the various components of the ruling bloc on where agricultural policies should go, as landed elites got to benefit from the new tenure law, and *infatih* bourgeoisie and former military officers could benefit becoming input suppliers with the withdrawal of state provision.

Whereas existing accounts tend to identify the exogenous shock of the East Asian crisis as the main reason for the slowdown in reforms from the mid-1990s, a Gramscian approach also points in the direction of political agency, and more specifically of the split of the ruling bloc into the two components that had respectively gained and lost from the first wave of reforms. In the eyes of the *infatih* bourgeoisie, the economic rewards derived from liberalisations and privatisations had made the ideas underpinning reforms ever more appealing. At the same time, following the example of most other neoliberalised economies, it made them appreciate the advantages of depoliticising economic policymaking and portray it as a technical field where the wisest strategy was to trust the advice of economic experts. The establishment of ERF and ECES in the mid-1990s fits into this logic.

The success in this endeavour to depoliticise economic policy-making constitutes the first form of autonomous causation on the part of ideas which fed back on material forces. More specifically, accepting economic policy as an eminently technical field regulated by market dynamics led to the establishment of an uneven playing field, where entrepreneurs are structurally better positioned than the other ruling bloc components. If neoliberalism becomes the new common sense for the rising capitalist elite, every challenge to its precepts must find a form of justification, whereas everything that happens according to its dynamics is naturalised and seen as a movement towards the end state of a free-market economy in the hands of private sector actors. Such an argument did play a significant role in the struggle for political power within the NDP, as it put the public sector component in a position where actions to defend its own interests had to be justified, whereas the interests of the *infatih* bourgeoisie, already rising

capitalist oligarchy, had become coincident with what was portrayed as the general public interest.

Thus, a shift in class relations on the national scale empowered firstly economically and then politically a specific component, leading to the relative alignment with prevailing social relations on the international scale discussed in Chapter 5 and to the power reconfiguration on the national scale discussed in Chapter 4. During this process, ideas played a fundamental, and already relatively autonomous, role in allowing for the most outward-oriented component within the ruling bloc to gain political prominence.

With the political shift brought about by the appointment of the Nazif cabinet, ideas had a second form of autonomous impact. Neoliberal principles became the guidelines by which economic policies were carried out. The benefits expected by the new capitalist elite were calculated through a cognitive framing deeply embedded in neoliberal norms and assumptions. As a consequence, neoliberalism had an autonomous influence on Egyptian economic policy-making by shaping the overall problematique, thus defining what was to be thought as an economic issue worth tackling, and then identifying potential solutions from within its own parameters and thus hiding alternative yet feasible reform paths. This falls squarely within the concept of policy paradigm, with the emergence of a new common sense among researchers and most of all among the capitalist oligarchy. Albeit it did not succeed in becoming hegemonic within wider society, neoliberalism was a powerful ideology driving the private sector component of the ruling bloc.

6.4. Articulation III: money, ideology and hegemony as exchange

Once more, the Gramscian approach developed here suggests to conceptualise the relation between material factors and ideas as a form of articulation. Following Stuart Hall, we could say that '[m]aterial conditions are the necessary but not sufficient condition of all historical practice' (1996b: 147). Thus, material conditions are taken as determining in the first instance what could happen in the realm of ideas. This form of determination is combined with the relative autonomy enjoyed by ideational factors, both in terms of outliving the material conditions producing them and in terms of ability to feed back on material conditions themselves, and by this influencing their evolution. As in previous forms of articulation, the extent of the relative autonomy is defined by shifts in class relations. However, the main

difference in this case is that this shift is measured with respect to *both* the reconfiguration of power taking place on the national scale and the relative alignment with prevailing class relations on the international scale. But let me explain better.

First of all, also determination in the first instance on the part of material conditions takes place both on the international and national scale. With respect to the former, the constraints and opportunities to deal with are the ones imposed by globalisation, and by the specific neoliberal form that it took under the dominance of finance capital. These conditions undoubtedly set the Braudelian 'limits of the possible', for example preventing any solution to the 1980s fiscal crisis outside of the parameters of capitalist development, and at the same time pushing in the direction of more integration with the global political economy. On the national scale, the limits of the possible were set by social relations prior to the shift in the accumulation regime. As already discussed, the ruling bloc rested on an alliance between various forms – and degrees – of rentierism, from landlords to various sections of the public sector to the dependent bourgeoisie created by *infitah*. The main element holding together these components was arguably the public control over the economy, which incidentally also gave the public sector a prominent position *vis-à-vis* the other components of the ruling bloc. Again, this situation constituted an objective limit to the ideational underpinnings of potential developments that could take place in Egypt. Indeed, one could argue that the common ground for the success of neoliberalism as an economic ideology can be found right at the intersection of the interests of private capitalists in Egypt and those of the neoliberal project on the international scale.

Within these boundaries, the relative autonomy of ideas has manifested itself in two different yet complementary ways. In a conscious form, the affirmation of neoclassical models and of neoliberal policies led to a redefinition of the disciplinary boundaries with respect to what is considered to be economics, what are its problems, the solutions offered and the expected payoff. Thus, the first form of feedback on material conditions is visible in the fact that the solutions offered are actual policies that once implemented have a concrete impact on material factors. These material effects, and the prediction of the expected payoff, might suggest that the adoption of neoliberal ideas might be driven by instrumental considerations. Whereas this is not to be excluded in principle, and indeed is also quite likely, we

should also pay attention to the performative power of academic disciplines, and particularly of economics. Ideas that were originally implemented out of instrumental considerations can become a causative factor on their own, in this case in the direction of reinforcing the material changes wished for by their supporters. In this form ideas become an autonomous policy driver, identifying some problems and neglecting some others, privileging some solutions and overlooking alternatives, and by doing this eventually reshaping those very material conditions from which they arose, thus effectively outliving them. This is one of the strongest effects of ideologies, intended in their strongest sense as a system of justification and mystification of existing social relations.

The relative autonomy of ideas can also be seen in a series of unintended – or at least seriously underestimated – consequences on material conditions. Two of them deserve mention here. On the one hand, within the ruling bloc, the material impact of the application of neoliberal ideas was a substantial deepening of the division between private capital owners and the public sector component, with the deriving upset of the delicate balance between the different components within the regime. On the other hand, with respect to social relations at large, neoliberalism produced a phenomenal concentration of power in the hands of what I have termed capitalist oligarchy, with the impoverishment of both the middle class and the poorer strata of society, to be identified in the working class, the peasantry and the increasing number of urban dwellers relying on the informal labour market.

What does this tell us about hegemony conceived following Sassoon (2000: 6) as a combination of material and ideational exchanges? The attempt to import a hegemonic project originally developed in the core economies has had devastating consequences on the Egyptian social structure. The precarious balance between the various components of the regime was shattered, leading to predatory practices on the part of ‘reformist’, i.e. private capitalist, wing, which displayed a ‘winner-takes-all’ attitude both economically, occupying all the privatised sectors and effectively exercising what previously were state functions in the economy, and also politically, becoming the most powerful component in the Nazif cabinet. At the same time, even the dimension of exchange, populist or otherwise, with respect to the wider Egyptian society largely disappeared. The end result was ideological dominance that failed to be backed by any material dimension of exchange, thus being once more far from hegemony as conceived in this work.

6.5. Conclusion

This chapter has discussed the power of economic ideas in bringing about the emergence of a new policy paradigm, and effectively of a new economic ideology, in Egypt. This has been done by referring to the crucial role played by the two main economic think tanks, conceived here as organic intellectuals, in changing the tide with respect to the reception of neoclassical models and neoliberal policies in the economic policymaking community. The emergence of neoliberalism as a new policy paradigm, and eventually as a new form of economic common sense, has been discussed with respect to the internalisation of two fundamental norms characterising neoliberalism. On the one hand, the preference for the private over the public sector on grounds of economic efficiency. On the other hand, the preference for capital account liberalisation over capital controls. The performative power of embracing neoclassical economics and neoliberal policies has been highlighted with respect to the cognitive biases produced by the acceptance of the two norms above and to the feedback on material conditions produced by the implementation of policies inspired by neoliberal ideas. At the same time, I have also tried to follow the power-politics dimension implicit in this battle, with specific reference to the political struggles within the ruling NDP.

On the one hand, materialist accounts tend to interpret this relevance of ideas in terms of their functionality to a class-based project largely defined in materialist terms. Whereas this is certainly a dimension worth considering, and witnessed empirically by the actual economic and political rise of the oligarchy of private capitalists supporting neoliberal ideas, these accounts tend somehow to neglect the performative power of economics, and the ability of neoliberal ideas to reshape material conditions themselves, both in intended and unintended ways. On the other hand, ideational accounts suggest correctly the persistence of policies inspired by neoliberal ideas, and thus the persistence of neoliberalism as a policy paradigm, in the face of changed in the material conditions that originally produced them. However, these accounts are limited by their inability to answer convincingly the question of who benefits from the dominance of these ideas, with constructivists somewhat neglecting the social forces supporting and opposing such ideas, thus falling back on an eminently consensual and persuasive path to the affirmation of neoliberalism, and authors inspired by Cox answering the question almost

exclusively in terms of the hegemonic interests of financial capital on the international scale.

Through the method of articulation, the Gramscian approach developed here is able to keep together these two parts of the picture, framing them together in terms of a determination in the first instance on the part of material factors that constrains but does not prevent the relative autonomy of ideas, which eventually feeds back on material conditions themselves. At the same time, ideational factors do not lose their social grounding, as the degree of their relative autonomy is related to shifts in the social structure, thus with ideas becoming relatively more autonomous when the reconfiguration of political power follows the shifts in class relations, and when the latter lead to a relative alignment with respect to prevailing class relations on the international scale.

When we link this relation between material and ideational factors to the definition of hegemony, on this dimension we see the affirmation of an ideology that had a divisive effect both within the ruling bloc and in the wider social fabric. At the same time, the political power gained by neoliberal ideas and by their supporters did not translate into any substantial material benefits for the rest of the population. Thus, if hegemony is conceived in terms of a material and ideational exchange, it appears that neoliberalism in Egypt fell far short of being hegemonic. Indeed, this appears the main finding of these three empirical chapters. A politico-economic system that appeared remarkably stable, having restored the path to economic growth and enjoying relatively untroubled times in political terms, was in fact experiencing on all the three dimensions studied a dramatic erosion of the conditions for being a successful hegemonic system.

Conclusion

ARTICULATING HEGEMONIES?

GRAMSCI, NEOLIBERALISM IN CRISIS AND TAHRIR SQUARE

Neoliberal authoritarianism as passive revolution: key findings

Four main findings have emerged from adopting the articulation approach in the study of the political economy of reforms in Egypt in the past two decades. Firstly, the Egyptian economy changed significantly in a neoliberal direction. The fiscal crisis of the late 1980s provided a must-take opportunity for IFIs to push the set of reforms that since the beginning of the decade had increasingly been adopted in several developing countries, with the aim of transforming them into liberalised export-oriented economies. Despite considerable disagreements, both macroeconomic stabilisation and structural adjustment measures were effectively carried out in Egypt, initiating a shift in the accumulation regime from the *étatist* one that had dominated since Nasser to a neoliberal regime. Relying on the definition of neoliberalisation provided by Harvey, we have seen that what happened in Egypt amounts to such a process. In particular, the late 1980s crisis was managed and manipulated by the state in order to open up the economic system, through a combination of liberalisations and privatisations that provided the conditions for the rise of a capitalist oligarchy. At the same time, slow but steady reforms in the tax code, together with a much greater reliance on the financial sector, produced a redistribution in favour of large capital owners leading to a further increase in inequality. Whereas these trends were partially obscured by the persistence of previous patterns, particularly with reference to the continued dominance of informal networks over formal networks, it is difficult to maintain that the penetration of neoliberalism in the Egyptian economy was not a game-changing event.

Secondly, the Gramscian approach based on articulation suggests that the form of neoliberalism emerging in Egypt is considerably different from the versions seen in most other countries. The main common threads with neoliberalism as we

came to know it in Western Europe and Latin America are to be found in an economy that is now mostly owned by private actors, in economic policies shaped by neoclassical economic theory, in the significant rise of the financial sector as a key engine of economic growth, and in the increased concentration of wealth and power in the hands of a small minority. Yet, the Egyptian way to neoliberalism is characterised by peculiarities deriving from the articulation between a shifting accumulation regime and the existing political regime, and the relations of forces embedded therein. In particular, it was discussed how on the institutional level one can see the increased relevance of privatisations and liberalisations, but also the political rise of the capitalist oligarchy and of select technocrats unified by a neoliberal outlook. Informal mechanisms, on the other hand, show the capturing of most privatised companies and liberalised markets by *infatih* business conglomerates as well as the construction of business alliances to raise informal barriers to entry in the most profitable sectors. The articulation of these factors amounted to a hybridisation of neoliberalism, which was combined with practices typical of the previous corporatist arrangement. At the same time, this articulation produced a reorganisation of authoritarian rule, with a redistribution of power within the ruling bloc that sanctioned the political rise of the new capitalist oligarchy. The emerging politico-economic configuration is termed neoliberal authoritarianism, and is characterised by the fact that both constituents of the compound concept are themselves transformed by articulation.

Thirdly, the spatial sources of neoliberalism evolved over time, with the articulation of international and national scale leading to a passive revolution with the aim of restructuring the accumulation regime while changing as little as possible in the political regime. In the early 1990s economic reforms informed by the Washington Consensus were mostly a project of international organisations pushed on the Egyptian government in the wake of a severe fiscal crisis. At the same time, already during the years of macroeconomic stabilisation, the ability of the regime with respect to delaying, diluting and in some cases resisting specific measures suggests that the national scale was never merely a 'transmission belt' as maintained by Cox and Robinson. Rather, as the most relevant actor on the nodal scale, the state articulated pressures towards economic reform in a neoliberal direction with its imperative of maintaining, and whenever possible strengthen, the stability of the political regime. As class relations began to shift in favour of private capital as a

consequence of the first round of reforms, the national scale increasingly took control of the reform process, pursuing what had become its own task of pushing forward neoliberal transformations while preserving authoritarian rule under a changed balance of forces. Thus, the emergence of neoliberal authoritarianism was itself the result of the passive revolution carried out by the state.

Lastly, if over time neoliberalism became more of an endogenous process, the study of the articulation of material and ideational factors suggests that economic ideas played a major role in this internalisation of neoliberalism. The study of the two main economic think-tanks in Egypt shows their role in the emergence in the capitalist elite of neoliberalism as a new economic common sense, taken for granted yet at the same time ridden with inconsistencies. This rise of neoliberalism as an ideology had far-reaching consequences on material conditions too. On the one hand, neoliberalism provided cognitive boundaries to understand what is to be considered as 'economic', relying on neoclassical economics to draw the line between 'the economy' and other social activities which economists, and economic policymakers, should not be concerned with. On the other hand, it also provided cognitive biases that identified and framed problems arising in the economic sphere and suggested policy solutions to them. This was seen for example with respect to the embedded, and often unreflexive, preference for private over public sector and for capital account liberalisation. The material consequences of these ideas became visible once policies following neoliberal principles are implemented. If neoliberal reforms were adopted mostly out of compliance during the first wave of reforms, over time belief came to play a more central role, and once again in concomitance with the rise of the capitalist oligarchy. Thus, over time neoliberalism developed as an ideology strongly influencing economic policymaking in Egypt.

Linking these findings back to Mohieldin's comment at the start of the thesis, it is possible to say that this time was different because neoliberalism had become a powerful force in the Egyptian political economy. Yet, the penetration of neoliberalism was mediated by articulation on different levels. This led to the emergence of a neoliberal authoritarian regime as a result of a passive revolution by which the imperatives of global capital accumulation were related to the objective of maintaining authoritarian rule. This time was different because the shift in class relations produced by these reforms was over time further reinforced by the rise of

neoliberalism as an economic ideology, and eventually produced a combination that would prove lethal for Mubarak's regime.

Back to Gramsci: outline of the articulation approach

Whereas Cox's interpretation of Gramsci aimed at establishing a critical theory of IR, the theoretical aim of this study was considerably less ambitious. More than developing an alternative *theory*, my intention was to explore how Gramsci can provide a sound starting point for establishing an alternative *method* for studying changes and continuities in the global political economy. Following Gramsci's suggestion, rather than focusing on select concepts that might provide the grounding for a theory, I have looked for the *leitmotiv* of his thinking and tried to trace down its methodological basis. This quest has led to develop a Gramscian approach based on articulation that has been illustrated with reference to the Egyptian case.

The *leitmotiv* of Gramsci's thinking was identified in the 'philosophy of praxis', which in its very name contains a manifesto for the method of articulation, as it implies the coexistence and mutual constitution of theory and practice. At the same time, when understood as historical dialectical materialism, it already provides a crucial guideline which allows to understand articulation as determination in the first instance and relative autonomy. In the notebooks, Gramsci recalls Marx's preface to *The Critique of Political Economy* when arguing that 'a society does not set itself tasks for whose solution the necessary conditions have not already been incubated' (Gramsci 1971: 106, Q15II§17). Hence, while necessary for our understanding of society and for our ability to act purposefully within it, social theories must be based on existing material conditions. At the same time, in that it allows theories to feed back on material conditions and eventually influence their evolution, the philosophy of praxis already contains what is considered to be the main innovation brought by Gramsci to twentieth century Marxism: the transformation of the increasingly rigid and mechanic base-superstructure metaphor into a more flexible relation where superstructural developments produce transformations at the structural level. Thus, Gramsci conceives the relation between structure and superstructure as a never-ending interaction whose results are by definition provisional, in a dialectic where the structure sets the boundaries for action which to an extent are constantly redrawn by actions themselves on the

level of superstructures. This is best embodied in the concept of 'historical bloc', with the former term referring to the contingent conditions underlying any given relation between structure and superstructure and the latter referring to the inescapable relation between the realm of production and the realm of state and civil society relations.

This work maintains that a disaggregation of the different instances of the structure-superstructure relation is most helpful when adopting the articulation approach to study the global political economy. Such choice dispels even more forcefully the risks of economic determinism. This is done by showing how the globalising tendencies of capital accumulation are fragmented, refracted and also subverted on three different dimensions, entailing the interaction of respectively: the economic and the political, the international and the national, the material and the ideational. In this respect, the main contribution of the articulation approach developed here to critical IPE lies in the chance of retaining the structural grounding by acknowledging the shaping power held by social relations of production, while at the same time suggesting in which forms their mediation on the realm of the superstructures leads to a fragmentation and transformation of the logic of capital accumulation. In other words, the articulation approach allows to bring respectively the political, the national, the ideational back in – to use a fashionable expression – eschewing economic, globalist and vulgar materialist tendencies.

The potential of this approach has been illustrated with reference to the Egyptian case, with an eye to how transformations on these three dimensions have influenced the constitution, reproduction and transformation of hegemony, undoubtedly the Gramscian concept most used in IR and IPE. Because of limitations regarding the research tools available and because of the historically prominent position of the state in economy and society in the Middle East, this research has mostly focused on the state, considered both as a relatively autonomous actor and as an arena within which other social groups struggle for relevance. However, the focus on the state in the specific Egyptian case need not imply the impossibility of extending the articulation approach to the study of other instances of the political, the national and the ideational.

To put it in the simplest possible way, the adoption of neoliberal reforms, while itself realised by political actors, national and international, on the basis of the acceptance of or compliance with some economic ideas, acts as a determination in

the first instance on the part of the economic, the international, the material. Yet, the other three poles in these interactive relations – the political, the national, the ideational – become significantly more relevant as the class struggle on the national scale evolves in favour of the social group initially empowered by reforms. Let me discuss this statement further with reference to what happens on each of the three forms of articulation.

Economic-political. Whereas transformations in the economic structure determine in the first instance the boundaries within which political forces can act, it is the latter, with their struggle to achieve their aims, to define the final outcome of the reform process. As mentioned in the introduction and hopefully substantiated in Chapter 4, this weaker meaning of relative autonomy is complemented by a stronger one. More specifically, the very actions of political forces do feed back on the economic structure, eventually reshaping – either narrowing down or widening – the possibilities for future action.

The thesis has focused on two political factors which have a particular bearing in the Egyptian case but also retain wider applicability. Firstly, I have focused on the *form of political regime*, and thus have highlighted that knowing if reforms are made in an authoritarian or a democratic regime makes a difference. Certainly because of the tendency to focus on the North Atlantic, this is an aspect somewhat overlooked by most neo-Gramscian approaches. Yet, the type of political regime does matter when it comes to the form taken by the accumulation regime. Because of the lack of meaningful political participation, authoritarian regimes need a working regime of capital accumulation even more than democracies do, or they must be committed to systematically resort to coercion, in a pattern that is however very unlikely to be sustainable in the long run. In this respect, the bigger autonomy that an authoritarian regime usually enjoys with respect to its society is counterbalanced by the imperative of economic growth in order to gain legitimacy.

Secondly, I have also focused on *changes within the political regime*, and thus on those adjustments that might appear as minor, but that in the Egyptian case turned out to be of great relevance. In this respect, we have seen the empowerment of the capitalist oligarchy acting as a form of determination in the first instance. The shift towards an accumulation regime more attuned to the interests of this section of the ruling bloc also had repercussions on relations in the political regime. Rather than

interpreting it as the necessary consequence of structural modifications, thus falling back into economic determinism, I have tried to emphasise the contingent nature of the political struggle, which saw the capitalist oligarchy organising itself economically, politically and ideationally. Despite structural shifts were already pointing in this direction, it was political struggle that led to the final outcome of neoliberal authoritarianism. This relative autonomy of the political manifested itself in the forms of hybridisation by which the new accumulation regime was itself transformed by articulation with old practices. In the Egyptian case, the main reason for this is arguably that the *infitalh* bourgeoisie turned into capitalist oligarchy was not an autonomous and independent class, but was rather one engineered by the state. Following from this, the capitalist elite had an interest in preserving all the privileges enjoyed under the previous regime and articulate them with the benefits deriving from the new. Hence, whereas the outcome was contingent on the political struggle here and now, it was still related to social relations of production in that the form and extent of relative autonomy were determined in the first instance by pre-existing class relations and the transformations they experienced.

International-national. This study has discussed at length how the affirmation of neoliberalism on the international scale is to be considered a shaping event that limits the field of action for the ruling bloc on the national scale. More specifically, the ever-greater integration of the global economy on neoliberal terms altered the conditions for successful capital accumulation on the national scale, pushing the Egyptian government to pursue the strategy of passive revolution discussed in Chapter 5. In this respect, passive revolution can be seen as a form of adaptation to the pressures of the international.

At the same time, passive revolution is also the agential process by which relative autonomy is exerted, providing the conditions for the domestication of neoliberalism, that is: for its adaptation to the social, economic and political conditions of the spatial scale where it is to be implemented. This study has focused on two forms of domestication. The first is a weaker form, and consists in the national scale becoming gradually more important as a nodal scale as neoliberalisation unfolds. In the first phase, the leaders of the reform process were clearly international organisations and donors. As the faction of the ruling bloc that benefited most from reforms began to internalise neoliberal norms and practices, the

path towards neoliberalisation became eminently driven by Egyptian social forces, and particularly by the most outward-oriented fraction of national capital, increasingly represented in parliament and government particularly after 2004.

The second form of domestication, and thus of relative autonomy, is a stronger one, and manifests itself in the form of variations to the original project of neoliberalisation promoted by IFIs and donors. This study has focused more specifically on two mechanisms by which such variations were produced. On the one hand, particularly in the first phase, we have seen several instances of key actors on the national scale resisting measures whose implementation was perceived as potentially detrimental to regime stability and to the prominent position of the ruling bloc. In some cases this took the form of delays in the implementation of measures such as the floating of the Egyptian pound or the privatisation of state-owned banks. In other cases, some measures were dropped altogether, for example with respect to enhancing competition in agriculture and manufacturing. In this way, relative autonomy as domestication became the strategy by which the national scale influenced the timing, sequencing and in some cases also the content of reforms. This was particularly evident for example in the privileging of trade liberalisation over internal market liberalisation, as much as in the firmness showed when implementing various forms of dispossession which was not replicated in the pursuit of unfettered state withdrawal from the economy. In this respect, domestication served as a form of deradicalisation of the potentially disruptive impact of neoliberal reforms on regime stability.

On the other hand, particularly once the leadership in the reform process shifted in the hands of the national scale, and of the cabinet in the particular, reforms began to include genuinely Egyptian elements that made them better suited to the local conditions and less threatening to the ruling bloc. We have seen two instances of this 'Egyptianisation' of neoliberalism in the discussion and eventually adoption of a private-public partnership law and in the launch of a state-led programme of industrialisation. These innovations were justified with reference to two arguments that had some success also with neoliberal hardliners in IFIs. On the one hand, as Mohieldin said during our interview, 'Egypt is no country for shock therapy'. On the other hand, 'economic reforms cannot be imposed following a one-size-fits-all approach'. These two considerations gave the 'reformist' wing enough leverage for devising and pursuing the Egyptian way to neoliberalism.

As with the articulation of economic and political factors, pre-existing class relations, and the transformations they experienced with respect to spatial scale, determined in the first instance both the weaker and the stronger form of relative autonomy. For the former, the shift in leadership became possible in the light of the relative alignment that saw Egyptian private capital rising to prominence, albeit more as an alliance between its various components rather than as the dominance of financial capital seen elsewhere. With respect to the stronger form of relative autonomy, the resistance to new elements and the persistence of old ones was determined in the first instance by previous class relations, with the attempt on the part of the capitalist oligarchy to preserve its rent while at the same time consolidating its position through the domination of newly created markets.

Material-ideational. Conceiving articulation as determination in the first instance and relative autonomy is of great help also in the third instance of the structure-superstructure relation. In this case, the distinction between material and ideational factors allows to look at both international and national forms of the influence material conditions have on ideational developments. Thus, on the one hand one must note the constraints and pressures that neoliberal globalisation put on the political discourse. On the other hand, a delimitation of the boundaries for ideational developments was set also by pre-existing class relations and by the accumulation regime regulating them on the national scale. Indeed, this convergence between the neoliberal hegemonic project on the international scale and the interests of the main factions of the ruling bloc further limited the possibilities for effective discursive agency. Form and extent of relative autonomy were once again determined in the first instance by prior class relations and by the transformations these experienced.

Yet, in Chapter 6 we have seen how ideas did gain a relatively autonomous role. Particularly, this study has focused on two closely related forms of conscious relative autonomy of ideas. The first form manifests itself in the ability of the neoliberal discourse in producing a depoliticisation of economic policymaking. With reference to policymaking in agriculture, manufacturing and especially finance, we have seen how by delegating to experts the choice of the economic model to follow, the room for political discussion effectively shrank, even though it did not disappear altogether.

The second form of relative autonomy relates to the adoption of neoclassical economics and neoliberal principles as guidelines for effective economic policy-making. In the Egyptian case, this produced a reshaping of the boundaries for social action, by reframing what 'the economy' is, how it should be treated as an 'object' of study, and what are the desirable outcomes that economic policies should pursue. By looking at the function of clarification, organisation and diffusion of neoliberalism on the part of the two most prominent economic think tanks in Egypt, we have seen how the increasing dominance of neoclassical economics and neoliberal policies translated into reliance on cognitive biases reflecting the internalisation of normative choices. This was studied with specific reference to two distinctly neoliberal norms: the preference for private over public sector actors in the economy, and the preference for capital account liberalisation over capital controls. The affirmation of these two norms, albeit initially dictated by instrumental considerations, eventually reshaped the whole discourse about economic policy in such a way as to structurally empower the capitalist oligarchy, effectively leading to an identification of the interests of outward-oriented private capital with those of the Egyptian economy as a whole.

At the same time, the relative autonomy of ideas in producing consequences on the material structure also had unintended effects. This could be considered in terms of lack of political articulation between the economic policy discourse being adopted and the material conditions characterising Egyptian society. The main unintended effect of the adoption of neoliberal ideas was the polarisation brought about both within the ruling bloc, between the private and public sector component, and in wider society, between the minority reaping the benefits of reforms, and the majority impoverished by successive waves of dispossession and by reforms more generally. Both these unintended consequences had a fundamental role in undermining the basis of support for Mubarak's regime.

In sum, whereas relatively coherent in its abstract-theoretical form, once translated in concrete-complex terms (Jessop 1982: 211-20; 2010: 187-8) – and thus once articulated with politics, territoriality and ideas – the logic of capital accumulation in the age of neoliberal globalisation becomes much more fragmented and varied than is often assumed in critical IPE. Indeed, the forms of hybridisation and domestication of neoliberalism could well be enriched by the study of other forms of

the political, the national and the ideational that were not treated in this work. For example, the informal one-party system dominated by the NDP prevented an appreciation of the role that political partisanship might have on the articulation of economic and political factors. Similarly, the focus on institutional relations in the study of interscalar articulation translated into a neglect of the role of non-institutional channels, and particularly of private capital, in influencing the forms of domestication of neoliberalism on the national scale. Lastly, the impact of the structure could be further mediated by articulation among different discourses, which have been overlooked to focus exclusively on the economic policy discourse. In the Egyptian case, this might have meant analysing how neoliberalism interacted with the various Islamist discourses and to what effect. Yet, already in the form delineated here, the articulation approach provides the tools to develop a tentative account of the Egyptian revolution.

Hegemony unravelling: a longer term perspective, 1952-2010

What is the relevance of the findings brought to light by the articulation approach for the constitution of hegemony in Egypt? Before addressing this question, it is imperative to put into historical perspective the transformations Egypt experienced in the past two decades. Thus, a brief recollection of the constitution of hegemony under Nasser and Sadat is needed. Under Nasser, articulation between the economic and the political produced the emergence of a state capitalist accumulation regime, committed to both equality and growth, while at the same time saw the gradual elimination of most of the pre-existing elites and the consolidation of an authoritarian regime. Without allowing for meaningful political participation, regime legitimacy almost exclusively relied on economic performance and redistribution. With respect to interscalar articulation, Egypt was able to develop a positional rent by sitting on the fence in the confrontation between superpowers and taking the leadership of the Non-Aligned Movement. These were the times of Keynesianism as the dominant economic policy discourse, with strong capital controls containing the thrust of global capital accumulation, thus allowing for forms of articulation where the autonomy of the national scale was almost unconstrained. On the articulation of material and ideational factors, Nasser's regime relied on the populist appeal of its welfare measures and on a strong tradition of economic nationalism, bolstered in the first decade by Pan-Arabist

ambitions. All of this was underpinned by a ruling bloc including the ever-expanding public sector, with the army taking a central position, and allegedly industrial workers and the peasants, away from the 'half-per-cent society' of colonial Egypt. Whereas there was certainly a strong rhetorical element in this inclusion of lower social classes, what matters most here is that it somehow worked. This suggests that Nasser was able to establish a distinctly Egyptian form of hegemony. It was certainly not an 'integral' hegemony, as this would not need to limit political participation in order to achieve its objectives. Yet, despite the extensive use of repression, particularly towards the Muslim Brotherhood, the regime was not predominantly based on coercion, as it was able to provide both material and symbolic benefits to most strata of society. For this reason I deem reasonable to speak of an hegemonic system being in place in Egypt between 1952 and 1967.

The Six-Day War brought this phase to an abrupt end, as witnessed by the 30 March Programme in 1968, which constitutes a first relaxation of the state's grip on the national economy (Bush 1999: 15). Under Sadat, despite the accumulation regime remained an *étatist* one, as discussed in Chapter 3, it is already possible to detect some transformations occurring in the articulation between the economic and the political. In particular, *infitah* started a process of economic and political liberalisation that, despite weakened on both dimensions, spurred social changes that would produce a first reorganisation of power within the ruling bloc and in society as a whole. The most relevant transformation was arguably the creation of the *infitah* bourgeoisie, which became a junior partner of the public sector in the ruling bloc. On the international-national dimension, the peace with Israel and the realignment in the Western camp were instrumental in bringing about a mass consumer society, but at the same time did not help in winning the support of the masses. On the other hand, the rise of neoliberalism on the international scale started to put the Egyptian regime of capital accumulation under severe pressure. Yet, the vital strategic importance of Egypt in the Middle East peace process was used to good effect to resist pressures towards more thoroughgoing economic reform. With respect to the articulation of material conditions and ideas, after the 1979 elections the populist discourse inherited from Nasserism was replaced by political demobilisation, which opened the way to the resurgence of Islamist groups. In his first decade in power, Mubarak continued on this route. The economic

liberalism underpinning *infatih* was largely neutralised by the *dirigist* preferences of the still dominant public sector. These transformations also had an impact on the constitution of hegemony, particularly as material benefits in the form of welfare programmes started to be withdrawn and were only partially replaced by increased mass consumption. Thus, hegemony started to decline, and was somehow 'fractured', holding together the ruling bloc but starting to lose the grip on the rest of society.

This broader historical perspective sheds a different light on the main findings of this work, suggesting that a gradual unravelling of hegemony on the national scale was already taking place, and that this trend was only accelerated by the implementation of neoliberal reforms. Transformations produced by articulation on each of the three dimensions appear to support this view. Firstly, the articulation of the economic and the political shows how neoliberal reforms, by promoting and reinforcing the rise of a capitalist oligarchy and conversely weakening both its partners within the ruling bloc and the rest of the population, produced a reorganisation of political power whose stability was more apparent than actual. If the success of a hegemonic project is dependent on its ability to relate to an existing or prospective accumulation strategy, and to the social relations underlying it, then the rising capitalist elite fell short of fostering this link, relying more on the predatory practices identified in Chapter 4 than on its potential leadership of a new hegemonic project.

Secondly, on the spatial dimension, the affirmation of neoliberalism on the international scale spurred a state-led passive revolution on the national scale by which the accumulation regime was transformed in the direction suggested by globalising capital and its main international supporters. At the same time, this reliance on an accumulation strategy prevalent on the international scale was not articulated with a national hegemonic project. If in Chapter 1 we emphasised the importance of the social basis of hegemony on the national scale, then the rising capitalist oligarchy was unsuccessful on this level too, with the neoliberal project being carried out with the only aim of favouring the narrow interests of a social group rather than also in the attempt of stabilising political rule.

Thirdly, with respect to the articulation of material and ideational factors, the rise of neoliberalism as an economic ideology has been discussed with reference to the academic, research and policy-making community. Yet, beyond these areas

increasingly influenced by the power of the capitalist elite, neoliberalism proved divisive both in the ruling bloc and in the wider society. In the former, this happened mostly because neoliberalism pitted the public and private sector components one against the other, thus creating a latent conflict that jeopardised the precarious balance ensuring regime stability. In the latter, the divisiveness of neoliberalism was rooted on its material consequences, bringing sizeable benefits to a small stratum and impoverishing the rest of the population. In this respect, the neoliberal turn hampered the effectiveness of hegemony-as-exchange discussed in Chapter 1. This was a further element suggesting how the sources of hegemony in Egypt, already weakened by *infitah*, had gradually been drained by neoliberal reforms.

Transformations on the dimensions evaluated by this work suggest that national hegemony in Egypt experienced a substantial erosion since the 1980s, which accelerated dramatically since the adoption of stabilisation and adjustment measures. If under Nasser hegemony was not 'integral', it was considerably successful, especially after the Suez crisis. *Infitah* produced a fracturing of the system, still hegemonic in the face of the ruling bloc, but increasingly less so towards the rest of the population. It is only with neoliberal reforms, though, that hegemony on the national scale effectively fails, providing the conditions for the fall of Mubarak.

Hegemony at home and abroad: the interscalar articulation of crises

Focusing on the transformations of hegemony on the national scale, this work has neglected changes occurring on the international scale. In these concluding remarks some considerations on the crisis of neoliberal regimes of capital accumulation worldwide are due, particularly as they suggest two sets of considerations. On the one hand, discussing the interscalar articulation of hegemonies allows to appraise in which conditions the decision of relevant actors on the national scale to rely on an accumulation strategy prevalent on the international scale might work or not, and why. On the other hand, it complements the main argument of this thesis and moves towards developing an account of what happened last year in Egypt. More specifically, while the hybrid and 'domesticated' form of neoliberalism developed in Egypt provided the conditions for a hegemonic crisis on the national scale, the crisis of neoliberalism on the international scale produced a further exacerbation of

conditions within Egypt, effectively turning what was a latent hegemonic crisis into an actual one.

In hard times such as the ones Egypt was facing in the late 1980s, the decision to rely more heavily on an accumulation regime prevalent on the international scale was arguably the most promising way to go. While defusing pressures coming from international actors, economic liberalisation could have brought benefits in terms of economic performance, and by this might have increased regime legitimacy on the national scale. The improvements displayed by Egypt with respect to its macroeconomic indicators during the two waves of neoliberal reforms seem to corroborate this argument. If one looks at the peak years of the two waves of reforms, respectively in 1997 and 2008, aggregate indicators paint a rather rosy picture: the economy was growing at a sustained rate (5.5 per cent in 1997, 7.2 in 2008), budget deficit was under control (1.6 in 1997, 6.6 in 2008), large capital inflows seemed to provide the preconditions for successful long-term development. Thus, neoliberalism as a strategy of capital accumulation was working remarkably well for Egypt.

However, as discussed in Chapter 3 and 4, together with sustained growth neoliberalism has also produced a shrinking of most sections of the middle class and an impoverishment of both working class and peasantry. Thus, the benefits of a regime that was successful in its main task – i.e.: sheer capital accumulation – were not felt by most of the Egyptian population. Here arguably lies the key problem of relying on the neoliberal accumulation regime prevalent on the international scale: to be successful and sustainable in the long run, it has to be weaved into the social fabric of the country adopting it. In this case, articulation is more a political strategy that the ruling class of a given country has to put into practice to allow the internalisation of a growth model also in its political and ideational components. Only in this way political rule on the national scale has the chance of becoming hegemonic, under the leadership of a specific class, or fraction thereof.

When one relates the adoption of neoliberal policies to the unravelling of hegemony on the national scale discussed in the previous section, the failure of the Egyptian capitalist elite to fulfil its hegemonic potential becomes apparent. Liberalisations and privatisations inspired predatory behaviours on the part of the capitalist oligarchy both in the newly created marketplaces and in the political arena. It was apparent that the rising section of the ruling bloc was not planning, at

least in the short run, to give up part of its immediate interests in order to accommodate some of the material and symbolic demands of other social forces, stabilising the regime in the long run. In other words, the only social group with the potential of becoming hegemonic either had no interest in constructing a new hegemony on the national scale, or was planning to move in this direction in a second phase, when its prominent position would become unassailable.

The collapse of Lehman Brothers and the following financial turmoil meant that no long-run hopes and calculations would apply anymore. If on the national scale neoliberalism had eroded the basis of hegemony, the global crisis had put neoliberalism into question on the global scale. In the Egyptian case, this meant that the incipient hegemonic crisis was compounded by a worldwide crisis of the regime towards which capital accumulation in the country had been redirected over the previous two decades. Whereas the aggregate indicators reacted reasonably well, the delayed impact of global recession became increasingly unsustainable, particularly for the poorer strata.¹⁷³ This was witnessed by the change in the social composition and in the demands of protests. The Kefaya movement emerged before the 2005 elections mostly around civil and political concerns. In contrast, after 2007 Egypt saw increasing working class mobilisation particularly in the spinning and weaving mills in the Nile Delta, the fight for the creation of independent trade unions on the part of tax collectors and vocal protests in front of the People's Assembly demanding an increase of minimum wages. Thus, the interaction of the global and national crises produced protests which were broader in their social composition, and at the same time advanced demands which had to do at least as much with socio-economic issues as with civil and political rights.

Whereas positive economic performance had been able to hide the hegemonic crisis and keep it latent for some time, the crisis of the neoliberal model on the international scale, and the impossibility of being shielded from its impact, remobilised social strata that the regime had become used to consider as passive subjects. *Horreya* (freedom), *dimuqratiya* (democracy) and the oft-forgotten *'adala igtimaya* (social justice) provided the platform for an embryonic alliance between what Harvey calls dispossessed and discontented (2010: 240-6). The former included

¹⁷³ Both the moderately positive reaction of macroeconomic indicators and the delay with which the crisis hit Egypt are themselves signals of the still partial incorporation of Egypt into the global political economy, and thus suggest that neoliberalisation was still on-going and incomplete.

farmers thrown out of their land after the implementation of Law 96 of 1992, industrial workers dismissed after privatisation or still working but with lower real wages and crippled rights, informal labourers, and also increasingly 'proletarianised' sections of public sector employees. On the other hand, the discontented included those self-employed professionals and relatively well-off private sector workers who were not among the losers of neoliberal reforms, but were increasingly dissatisfied with the political regime. To some degree, the discontented also included the army that increasingly perceived the rise of the capitalist oligarchy as a threat. These social transformations, together with some genuine underrating of the strength of the protests, and amateurish miscalculations on the part of the regime, provided the conditions for revolts to go as far as achieving Mubarak's overthrow.

When delving into the socio-economic causes of political events, the risk of essentialising economic factors is always behind the corner. This was far from being my intention here. Still, I am convinced that tracking down the interaction of national and international crises, economic and political factors, material and ideational elements, allows to put the Egyptian revolution into broader perspective, showing how long-term transformations, such as the gradual neoliberalisation of the economy and the following increase in inequality, interacted with more contingent changes often mentioned, ranging from the effect of global recession to the 'We are all Khaled Said' page on Facebook to the events of Sidi Bouzid. In much the same way the articulation of the latent hegemonic crisis on the national scale with the global economic crisis wiped off the table the few remnants of hegemony in Egypt, setting the conditions for the overcoming of the Mubarak regime.

After Mubarak: from passive to active revolution, and back?

To make a long story short, the fall of Mubarak could be interpreted as the unintended outcome of a passive revolution gone wrong. The attempt to stabilise political rule under changed conditions for capital accumulation failed because it was not successful in developing a base for the emergence of a new ruling bloc beyond the narrow 'corporatist' interests of the capitalist oligarchy, or in providing at least a modicum of benefits to subaltern classes. Tahrir Square became the symbol of the willingness on the part of a sizeable portion of the Egyptian population to take direct action, producing a shift from a passive to an active revolution, which

succeeded in overthrowing an autocrat who had been in power for nearly thirty years.

Whereas the demise of Mubarak was hastily hailed as the fall of the main obstacle to democratisation, subsequent developments had a sobering effect on these optimistic expectations. The military junta that took power in the wake of Mubarak's overthrow appears reluctant to transfer power to civilians, and in the last weeks of 2011 launched a full-scale intimidation campaign against NGOs investigating human rights abuses. At the same time, the provisional results of the ongoing parliamentary elections see the Freedom and Justice Party born from the Muslim Brotherhood ahead of the Salafis' Al Nour as the two most voted parties. Finally, in the last couple of months, protests across the country, with Tahrir Square once more serving as the symbolic centre of gravity, started to gain new momentum, despite the increasingly repressive reaction of police and army forces.

Within this extremely fluid configuration it would be unwise to predict in which direction things will evolve. On the one hand, the rollback towards an *étatist* regime once more dominated by the military cannot be ruled out, particularly in the wake of the global crisis of neoliberalism, which the Egyptian military never really liked anyway. On the other hand, there is a distinct possibility of matters developing in the direction of a 'neoliberalism without neoliberals', with the NDP businessmen jailed last spring merely serving as scapegoats, and providing the chance for a reorganisation and continuation of the passive revolution on the part of the other component of the ruling bloc. This second strategy would not necessarily be incompatible with some measure of political liberalisation, and possibly also with the transfer of power to civilians.

Whatever the army's strategy, two factors are bound to play a major role in future developments. Firstly, the latest wave of protests and demonstrations shows that the mobilisation of part of the middle and lower classes was not a temporary phenomenon, but rather one that can be sustained over time. Secondly, albeit currently put in the shadows by demands for the junta to step down, the demands for greater social justice have also become a durable feature in the Egyptian political landscape. Both these elements are likely to persist unless these demands, and the social groups expressing them, will be taken seriously by the next Egyptian regime. After all, as Fawaz Gerges put it, the exit of Mubarak 'removes the barrier of fear in the region' (2011). This is already a consolidated result of the Arab Spring, and one

with which the Egyptian military and international actors alike will have to come to terms with.

Appendix I – ERF and ECES working papers

Economic Research Forum				
No	Paper	Author(s)	Title	Sector
1	199923	Alami, Tarik H.	<i>An Econometric Investigation of Dollarization in Egypt</i>	Finance
2	199924	Kandil, Magda	Supply-Side Asymmetry: Evidence from the Middle East in Contrast to Developed and Developing Countries	Economic theory
3	199929	Amin, Galal	Consumption Patterns and Human Development: The Case of Egypt	Human development
4	199932	Karshenas, Massoud	Structural Obstacles to Economic Adjustments in the MENA Region: The International Trade Aspects	Trade, adjustment
5	199933	Aldakhil, Khalid I.	Patterns and Determinants of International Migration in Arab countries: The Case of Egypt	Migration
6	199938	Karshenas, Massoud	Labor Market Flexibility and Economic Adjustment: A Cross-Regional and Cross-Country Analysis	Employment, adjustment
7	199940	Tohamy, Sahar	Case Study of Egypt's Service Liberalization, Service Barriers and Implementation of the GATS Agreement	Services, liberalisation
8	200002	Karshenas, Massoud	Relative Prices and the International Comparison of Real Agricultural Output and Productivity	Agriculture, prices
9	200006	Safadi, Raed and Subidey Togan	The MENA Countries and the Uruguay Round and Beyond	Trade
10	200007	Chaherli, Nabil and Moataz El-Said	Impact of the WTO Agreement on MENA Agriculture	Agriculture, trade
11	200008	Kheir-el-Din, Hanaa and M. Maamoun Abdel-Fattah	Textiles and Clothing in the Mediterranean Region: Opportunities and Challenges of Returning Textiles and Clothing to GATT Disciplines	Textiles, Euromed, GATT

12	200010	Guerrieri, Paolo and Isabella Falautano	A Birds-Eye View of the Agenda: The Developing Countries and the Millennium Agenda	Development
13	200011	El Hedi Lahouel, Mohamed	Competition Laws in MENA: An Assessment of the Status Quo and the Relevance of a WTO Agreement	Competition, WTO
14	200012	al Khouri, Riad	Maritime and Air Transport in MENA: The Potential Gains from Liberalization	Transport, liberalisation
15	200013	Inama, Stefano and Lorenzo Jachia	Assessing Market Access Preferences for Mediterranean Countries in the EU Market for Industrial Goods	Industry, Euromed
16	200014	Zallio, Franco	Deep Integration, EURO-MED Free Trade and the WTO 2000 Negotiations	Trade, Euromed, WTO
17	200016	Assaad, Ragui and Insan Tunali	Wage Formation and Recurrent Unemployment	Employment
18	200018	Sirageldin, Ismail	Elimination of Poverty: Challenges and Islamic Strategies	Poverty, Islam
19	200021	Meyer, Günther	Survival of Small-Scale Manufacturing in Cairo During Structural Adjustment: Results from a Long-Term Study	Industry, adjustment
20	200024	Loewe, Markus	Social Security in Egypt: An Analysis and Agenda for Policy Reform	Social security
21	200025	<i>Kamaly, Ahmad and Nese Erbil</i>	<i>A Var Analysis of Exchange Market Pressure: A Case Study for the MENA Region</i>	<i>Currency, exchange rate</i>
22	200026	<i>Hakim, Sam and Simon Neaime</i>	<i>Mean-Reversion Across MENA Stock Markets: Implications for Portfolio Allocations</i>	<i>Finance, stock market</i>
23	200028	Eid, Florence	Understanding Good Institutional Design in Hospital Corporatization: A Decision Rights Approach	Healthcare, privatisation
24	200030	Haddad, Mona	Export Competitiveness: Where Does the Middle East and North Africa Region Stand?	Trade, competitiveness

25	200031	Ghoneim, Ahmed Farouk	The Egyptian Exporting Community and the Institutional Setup: Assessment of the Last Decade Developments and Perspectives for the EU-Med Partnership	Trade, Euromed
26	200032	Neaime, Simon	<i>A Perspective on the Future Dollar-Euro Exchange Rate: Implications for the Peripheral Mediterranean Countries</i>	<i>Currency, exchange rate</i>
27	200034	<i>Kheir-el-Din, Hanaa and Sherine el-Shawarby</i>	<i>Trade and Foreign Exchange Regime in Egypt</i>	<i>Trade, exchange rate</i>
28	200035	<i>Kheir-el-Din, Hanaa, Samiha Fawzy and Amal Refaat</i>	<i>Investment Incentives, Marginal Effective Tax Rates and the Cost of Capital in Egypt</i>	<i>Finance, investment, tax</i>
29	200036	Nassar, Heba and Heba El Laithy	Labor Market, Urban Poverty and Pro-poor Employment Policies	Employment, poverty
30	200037	Ghoneim, Ahmed Farouk	Determinants of the Egyptian Exports Market Access to the European Union	Trade, export
31	200040	<i>El-Shazly, Alaa</i>	<i>Incentive-Based Regulations and Bank Restructuring in Egypt</i>	<i>Finance, banking sector</i>
32	200106	Gallina, Andrea	SMEs Contribution to the Creation of the Euro-Mediterranean Region	Euromed, SMEs
33	200108	Wahba, Jackline	Child Labor and Poverty Transmission: No Room for Dreams	Poverty, child labour
34	200111	Assaad, Ragui, Deborah Levison and Nadia Zibani	The Effect of Child Work on School Enrolment in Egypt	Education, child labour
35	200115	Saidi, Nasser	Aid, Trade, Cooperation and the EU: 'Things Must Be Done Differently to Rescue the Euromed Partnership	Trade, aid
36	200117	Afifi, Tamer	The Poor in the Egyptian Labor Market During an Adjustment Period: For Better or Worse?	Employment, poverty
37	200123	El-Kogali, Safaa E. and El Daw A. Suliman	Poverty, Human Capital and Gender: A Comparative Study of Yemen and Egypt	Employment, poverty, gender
38	200127	El-Laithy, Heba	The Gender Dimension of Poverty in Egypt	Poverty, gender

39	200129	El-Ehwany, Naglaa and Manal Metwally	Labor Market Competitiveness and Flexibility in Egypt	Employment, labour market
40	200133	Cottenet, Hélène	Internal and External Economies in Egyptian Manufacturing, 1970-1997	Industry
41	200137	<i>Hakim, Sam and Simon Neaime</i>	<i>Performance and Credit Rating in Banking: A Comparative Study for Egypt and Lebanon</i>	<i>Finance, banking sector, credit rating</i>
42	200139	<i>Darrat, Ali F. and Mahmoud Haj</i>	<i>Further Evidence on the Link Between Finance and Cyclical Fluctuations</i>	<i>Finance, cyclical fluctuation</i>
43	200140	<i>Hassan, M. Kabir</i>	<i>Financial Structure, Creditworthiness and Stock Market Development: A Cross-Country Analysis</i>	<i>Finance, stock market</i>
44	200201	Karshenas, Massoud	Measurement and Nature of Absolute Poverty in Least Developed Countries	Poverty
45	200203	Hoe-Joong, Kim and Hadi Salehi Esfahani	Hiding Public Debt	Public sector, debt
46	200204	Sirageldin, Ismail	Diversity and Historical Process in Human Development: The Decline of Rationality	Human development
47	200205	Esfahani, Hadi Salehi and Ali Toossi Ardakani	What Determines the Extent of Public Ownership	Public sector, ownership
48	200207	Nassar, Heba and Ahmed Ghoneim	Trade and Migration, Are They Complements or Substitutes: A Review of four MENA Countries	Trade, migration
49	200208	<i>Grais, Wafik and Zeynep Kantur</i>	<i>The Changing Financial Landscape: Opportunities and Challenges for the Middle East and North Africa</i>	<i>Finance</i>
50	200211	Yousef, Tarik M.	Egypt's Growth Performance Under Economic Liberalism: A Reassessment with New GDP Estimates, 1885-1945	History, growth
51	200212	Hassan, M. Kabir	An Empirical Investigation of Economic Cooperation among the OIC Member Countries	Cooperation

52	200227	Omran, Mohammed	<i>Initial and Aftermarket Performance of Egyptian Share Issue Privatization</i>	Finance, stock market, privatisation
53	200228	Trabelsi, Mohamed	<i>Finance and Growth: Empirical Evidence from Developing Countries, 1960-1990</i>	Finance, growth
54	200229	Eltony, M. Nagy	Measuring Tax Effort in Arab Countries	Fiscal policy
55	200230	Gentzoglanis, Anastassios	Privatization, Investment and Efficiency in the Telecommunications Industry: Theory and Empirical Evidence from MENA Countries	Telecoms, privatisation, efficiency
56	200234	Khouzam, Raouf F.	Economic Aspects of Wastewater Reuse: The Egyptian Case	Infrastructures
57	200236	Rezgui, Sami	Geography, International Trade and Technological Diffusion	Trade, technology
58	200237	Nour, Samia Satti O.M.	The Impact of ICT on Economic Development in the Arab World: A Comparative Study of Egypt and the Gulf Countries	Telecoms, development
59	200239	Ghoneim, Ahmed Farouk	Competition Law and Competition Policy: What Does Egypt Really Need?	Competition, WTO
60	200240	<i>Kamar, Bassem and Damyana Bakardzhieva</i>	<i>The Reforms Needed to Attract More FDI in Egypt: Lessons from the CEEC Experience</i>	FDI
61	200303	Ghoneim, Ahmed Farouk	Helping to Identify the Potential and Mode for Liberalization of Trade in Services in the Southern Mediterranean Countries: The Case of Egypt	Services, trade, liberalisation
62	200304	Saidi, Nasser and Hala Yared	E-Government: Technology for Good Governance, Development and Democracy in the MENA Countries	Technology, development, good governance
63	200308	Müller-Jentsch, Daniel	Transport Sector Reform and Deeper Economic Integration in the Euro-Mediterranean Region	Transport, reform
64	200309	Eid, Florence	Foreign Direct Investment in the Arab World: Creating the Missing Link	FDI

65	200310	Tooma, Eskandar A.	<i>Modeling and Forecasting Egyptian Stockmarket Volatility Before and After Price Limits</i>	<i>Finance, stock market</i>
66	200312	Mohieldin, Mahmoud and Ahmed Kouchouk	<i>On Exchange Rate Policy: The Case of Egypt 1970-2001</i>	<i>Currency, exchange rate</i>
67	200313	El Mahdi, Alia and Magued Osman	An Assessment of the Effectiveness of Small and Micro-Enterprise Finance in Employment Creation	Employment, SMEs
68	200314	Rizk, Rola	Fiscal and Debt Profile of the MENA Region	Debt, fiscal policy
69	200317	Kadah, Mohamed Mansour	Foreign Direct Investment and International Technology Transfer in Egypt	FDI, technology transfer
70	200322	Said, Nasser	Arab Economic Integration: An Awakening to Remove Barriers to Prosperity	Regional integration
71	200324	Abdelhamid, Doha and Alia El Mahdi	The Small Business Informality Challenge: Lessons Learned from Country Experiences and the Road Ahead for Egypt	Informality, SMEs
72	200325	Mohieldin, Mahmoud and Sahar Nasr	<i>Bank Privatization in Egypt</i>	<i>Finance, banking sector, privatisation</i>
73	200334	Eltony, M. Nagy	<i>Arab Financial Sector Development and Institutions</i>	<i>Finance, development</i>
74	200335	Abu-Ismael, Khalid	The Myth of Export-Led Growth	Export-led growth
75	200336	Massoud, Nada	Assessment of FDI Incentives in Egypt	FDI
76	200402	Basheer, Abdel-Hameed M.	<i>Islamic Banks Participation, Concentration and Profitability: Evidence from MENA Countries</i>	<i>Finance, Islamic banking</i>
77	200406	El-Hamidi, Fatma	General or Vocational? Evidence on School Choice, Returns and "Sheep Skin" Effect from Egypt 1998	Education
78	200408	Bassem, Kamar	<i>De Facto Exchange Rate Policies in the MENA Region: Toward Deeper Cooperation</i>	<i>Currency, exchange rate</i>
79	200410	Roushdy, Rania	Intrahousehold Resource Allocation in Egypt: Does Women's Empowerment Lead to Greater Investments in Children?	Gender, resource allocation

80	200413	Kobeissi, Nada	<i>Ownership Structure and Bank Performance: Evidence from the Middle East and North Africa</i>	<i>Finance, banking sector, ownership, performance</i>
81	200420	Dobrogonov, Anton and Farrukh Iqbal	Economic Growth in Egypt: Constraints and Determinants	Growth
82	200424	Nasr, Sahar	<i>Financial Leasing in MENA Region: An Analysis of Financial, Legal and Institutional Aspects</i>	<i>Finance, leasing</i>
83	200428	Becchetti, Leonardo and Iftekhar Hasan	The Effects of Internal Integration in the MENA Region and Its Integration with the EU: Impact on Real Effective Exchange Rate Volatility, Institutional Quality and Growth for MENA Countries	Regional integration, exchange rate
84	200430	<i>Bahaa Eldin, Ziad, Mahmoud Mohieldin and Sahar Nasr</i>	<i>Prospects of Mortgage Markets in MENA Countries: An Analysis of Financial, Legal and Institutional Aspects with Emphasis on the Egyptian Case Study</i>	<i>Finance, mortgage</i>
85	200431	Neaime, Simon	<i>Financial Market Integration and Macroeconomic Volatility in the MENA Region: An Empirical Investigation</i>	<i>Finance, integration, macroeconomics</i>
86	200701	Assaad, Ragui	Labor Supply, Employment and Unemployment in the Egyptian Economy, 1988-2006	Employment, labour market
87	200702	Amer, Mona	The Egyptian Youth Labor Market School-to-Work Transition, 1998-2006	Employment, labour market, youth
88	200703	Wahba, Jackline	An Overview of Internal and International Migration in Egypt	Migration
89	200704	Barsoum, Ghada	Egypt Labor Market Panel Survey 2006: Report on Methodology and Data Collection	Employment, labour market
90	200705	Sirageldin, Ismail	On Global Governance in the 21st Century	Global governance
91	200706	El Mahdi, Alia and Ali Rashed	The Changing Economic Environment and the Development of the Micro and Small Enterprises in Egypt 2006	MSEs

92	200707	Mandour, Dina	Investigating the Impact of Health and Environmental Standards on Exports: The Case of Egyptian Agro-Food Exports to the EU	Agriculture, Euromed, standards
93	200708	Said, Mona	The Fall and Rise of Earnings and Inequality in Egypt: New Evidence from the ELMPS, 2006	Employment, inequality
94	200711	Hassine-Belghith, Nadia Belhaj	Exporting, Productive Efficiency and Product Quality: An Empirical Analysis of the Agricultural Sectors in the Mediterranean Countries	Export, efficiency, quality
95	200715	Roushdy, Rania and Ragui Assaad	Poverty and Geographic Targeting in Egypt: Evidence from a Poverty Mapping Exercise	Poverty
96	200721	El-Hamidi, Fatma	Early Retirement in the Government Sector in Egypt: Preferences, Determinants and Policy Implications	Public sector, pensions
97	200722	<i>Kandil, Magda and Nazire Nergiz Dincer</i>	<i>A Comparative Analysis of Exchange Rate Fluctuations and Economic Activity: The Cases of Egypt and Turkey</i>	<i>Currency, exchange rate</i>
98	200723	<i>Bennaceur, Samy, Adel Boughrara and Samir Ghazouani</i>	<i>On the Linkage Between Monetary Policy and MENA Stock Markets</i>	<i>Finance, monetary policy, stock market</i>
99	200802	Ben Jelili, Riadh, H�el�ene Djoufelkit-Cottenet and Abdelhakim Hammoudi	Normative Approach of Upstream-Downstream Relationships in the Tourism Sector: Implications for the Tourism Policy of the South Mediterranean Countries	Services, tourism
100	381(2008)	<i>Suliman, Osman</i>	<i>Do Capital Inflows Cause Currency Black Markets in MENA? Causality Tests for Heterogeneous Panels</i>	<i>Finance, currency black markets</i>
101	382(2008)	Nowak, Jean-Jacques and Mondher Sahli	Tourism, Capital Good Imports and Long-Run Growth	Services, tourism
102	383(2008)	El-Haddad, Amirah	Vertical Integration and Institutional Constraints on Firm Behavior: The Case of the Garment Industry in Egypt	Industry, vertical integration

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112	WP136 (2008)	Fares, Hala and Alaa Ibrahim	Wage Price Causality in the Egyptian Economy (1990-2005)	Labour market, wages
113	WP137 (2008)	Abdel-Latif, Abla	The Potential Impact of Recent Industrial Policy Changes in Egypt on the Environment	Industrial policy, environment
114	WP138 (2008)	El-Megharbel, Nihal and Yasmine Fouad	Corporate Social Responsibility in Egypt: International Experience	CSR
115	WP139 (2008)	Shehata Khattab, Abdallah	Public Private Partnership in Providing Educational Services: Lessons for Egypt	Education, PPP
116	WP140 (2008)	El-Megharbel, Nihal	Enhancing Linkages Between SMEs and Large Enterprises in the Egyptian Industry	Industry, SMEs, large firms
117	WP141 (2008)	Helmy, Omneia	The Impact of Budget Deficit on Inflation in Egypt	Inflation, budget deficit
118	WP142 (2008)	Abou Ali, Sultan	The Global Financial Crisis and Its Implications for Egypt	Global crisis
119	WP143 (2009)	Selim, Tarek H.	On the Economic Feasibility of Nuclear Power Generation in Egypt	Energy, nuclear power
120	WP144 (2009)	El-Bayoumy Ghanem, Ibrahim	Reviving and Improving the System of Waqfs (Endowments) in Egypt	Welfare, Waqfs
121	WP145 (2009)	Abouleinein, Soheir, Heba El-Laithy and Hanaa Kheir-El-Din	The Impact of Phasing Out Subsidies of Petroleum Energy Products in Egypt	Energy, subsidy policy
122	WP146 (2009)	El Ehwany, Naglaa	The Construction and Related Engineering Services: Challenges and Policies	Industry, construction
123	WP147 (2009)	Sakr, Mohamed, Nada Massoud and Hala Sakr	Tourism in Egypt: An Unfinished Business	Tourism
124	WP148 (2009)	El-Shazly, Alaa	<i>Efficiency Measures for Banking Groups in Egypt</i>	<i>Finance, banking sector</i>

125	WP149 (2009)	Ghoneim, Ahmed	Egypt's Prerequisites to Ensure Effective and Fruitful Reform of Services	Services
126	WP150 (2009)	Helmy, Omneia	ICT Services without Borders: An Opportunity for Egypt?	Services, telecoms
127	WP151 (2009)	Abdelhamid, Doha and Laila El Baradei	Reforming the Pay System for Government Employees in Egypt	Public sector, civil service, wages
128	WP152 (2009)	Ragab, Adla and Hisham Fouad	Roads and Highways in Egypt: Reforms for Enhancing Efficiency	Transport
129	WP153 (2010)	El-Megharbel, Nihal	Efficiency of Wholesale and Retail Distribution Services in Egypt	Services, wholesale and retail distribution
130	WP154 (2010)	Helmy, Omneia	Competitiveness of Egypt in the EU Market for Fruits and Vegetables	Euromed, agriculture
131	WP155 (2010)	Abou-Ali, Hala and Hanaa Kheir-El-Din	Economic Efficiency of Crop Production in Egypt	Agriculture, crop production
132	WP156 (2010)	El-Haddad, Amirah	Effects of the Global Crisis on Egyptian Textiles and Clothing Sector: A Blessing in Disguise?	Industry, textile, global crisis
133	WP157 (2010)	Abouleinein, Soheir, Heba El-Laithy, Omneia Helmy, Hanaa Kheir-El-Din and Dina Mandour	Impact of the Global Food Price Shock on the Poor in Egypt	Agriculture, global food crisis
134	WP158 (2010)	<i>Moursi, Tarek Abdelfattah and Mai El Mossallamy</i>	<i>Monetary Policy Response to Exchange Rate Movements: The Case of Egypt</i>	<i>Monetary policy</i>
135	WP159 (2010)	Abouleinein, Soheir, Naglaa El Ehwany, Heba El-Laithy and Abdel Azim Mustafa	Promoting Farm/Non-Farm Linkages for Rural Development in Egypt	Agriculture

Appendix II – List of interviewees (in alphabetical order)

Gouda Abdel-Khalek, Professor of Economics, Cairo University, and currently Ministry of Supply and Social Affairs;

Rania Al Mashat, Head of the Monetary Policy Unit, Central Bank of Egypt (CBE);

Galal Amin, Professor of Economics, American University in Cairo (AUC);

Mona Bassiouni, Head of the Banking Supervision Unit, CBE;

Christophe Besse, Head of the Trade, Science and Enterprise Section, Delegation of the European Union (EU) in Egypt;

Felipe de la Mota, Official, EU Delegation in Egypt;

Walaa Elhousseiny, Advisor to the Chairman of the Egyptian Financial Supervisory Authority (EFSA);

Ahmed ElSayed, General Manager of the Finance Section, Egyptian Stock Exchange (EGX);

Faika El-Refaie, former Sub-Governor and Head of Economic Research, CBE;

Mohamed Farid, former Senior Advisor to the Ministry of Investment;

Ahmed Galal, former Director of the Economic Research Forum (ERF);

Ahmed Kamaly, Professor of Economics, AUC, and Director of the Egyptian National Contact Point with the Organisation for Economic Cooperation and Development (OECD);

Hanaa Kheir-el-Din, former Director of the Egyptian Center for Economic Studies (ECES);

Hervé Leclerc, Resident Coordinator for the Basel II Programme, European Central Bank;

Mohamed Gamal Moharam, President of the American Chamber of Commerce in Egypt (AmCham);

Mahmoud Mohieldin, former Ministry of Investment and current Deputy Manager, World Bank;

Tarek Moursi, Professor of Economics, Cairo University, and Expert in Agricultural Economics and Quantitative Analysis at the Information and Decision Support Center (IDSC)

Sahar Nasr, Senior Financial Economist for the World Bank in the Middle East and North Africa;

Rashid Mohamed Rashid, former Ministry of Trade and Industry;

Francesco Sciacchitano, former Resident Programme Coordinator for the NATPII Programme, Autorità per le Garanzie nelle Comunicazioni

Maged Shawky, former Chairman of EGX;

Daniel Weiss, Deputy Head of the Environment and Technology Section, EU Delegation in Egypt.

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