Egypt's Social Welfare: A Lifeline for the People or the Ruling Regime?

Written by Ahmed Elsayed

Egypt has one of the most comprehensive social welfare systems in Africa and the Middle East. This system has emerged with the inception of the Egyptian republic in 1953. Still, this welfare system has proved unable to alleviate poverty or improve social justice in the country. Therefore, the two main questions addressed in this research paper are: To what extent has Egypt's welfare system been used as a tool for legitimising authoritarianism? And, to what degree has this system served poor Egyptians?

This research is important for several reasons. First, it seeks to contribute to bridge the academic gap of studying social welfare in non-democratic countries. The existing literature is predominantly based on democratic systems, and this research is an effort to reduce this democratic bias. Second, it offers new insights into understanding one of the ways in which social welfare constituted a lifeline, not for the people, but for authoritarian rulers. Finally, this paper could be of practical value to policymakers concerned with improving Egypt's social welfare programmes.

This paper starts with a literature review on the authoritarian politics of social welfare. It then proceeds with a chronological narrative of how social welfare was utilised as a legitimising tool by Egypt's rulers. Thirdly, a discussion of the shortcomings and non-state components of social welfare in Egypt is presented. Finally, the research ends with a concluding section.

Literature Review

The literature on social welfare focuses primarily on democratic and industrialised countries. This scholarship does not only exclude non-democratic states from its analysis, it often also perceives democracy as prerequisite for the development of social welfare. Such a perception contradicts ‘the historical oddity that the first major welfare state initiatives occurred prior to democracy and were powerfully motivated to arrest its realization’ (Esping-Andersen, 1990: 16). The non-democratic embrace of social welfare was, however, underlined by Mares and Carnes (2009: 97) who concluded that 'The only departure from the pattern of authoritarian first-adoption [of social welfare programmes] has been unemployment insurance.’

While the dominant literature on democratic welfare highlights the experience of nation-building in Western Europe, it was surprising that even the scarce research on authoritarian welfare has failed to account for historical differences in the emergence of the authoritarian nation-state and their influence on the development of social welfare systems. This is a major drawback in the literature because, for some authoritarian countries, the failure of their welfare systems is partly inherent in the exogenous emergence of their nation-states.

Reflecting on the Arab states, Sharara (1980: 228) states that 'What is historically special [about the Arab State] is that this State has not emerged as result of an internal conflict that had divided the society and its blocs, enabling one of them to establish its dominance […] The State in our societies was, by contrast, born as an ‘external’ power, thus rendering it … marginal in the literal sense. It has not succeeded in overcoming its marginality even at the peak of its dominance'.

Drawing on Sharara's conception, Nazih Ayubi (1995) distinguished the ‘fierce’ state from the ‘strong’. The fierce state, Ayubi posits (1995: 332), is often violent because it is structurally weak. The strong state is, oppositely, characterised not by its ability to coerce, but by its ability – through extractive and regulative capacities
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– to penetrate and work with that society. Insofar as social welfare is concerned, the state’s extractive power, via direct taxation, is the most important capacity in the long-run, especially after the external rents dry up.

The Ayubi’s thesis remarkably explains the absence of taxes as a major source of funding social programmes in Arab countries. Egypt, for instance, had between 1978 and 1985 one of the lowest scores worldwide of domestic tax revenues as percentage of total revenues (See figure 1, in Appendix). Differently, taxation powers and revenues were at the heart of the emergence and consolidation of citizenship and modernisation in European states.

According to Thomas Marshall (1950: 10-1), citizenship has three aspects: civil, political and social. He defines social citizenship as ‘the whole range from the right to a modicum of economic welfare and security to the right […] to live the life of a civilised being according to the standards prevailing in the society.’ This definition resonates with Esping-Andersen’s (1990: 23) concept of decommodification that requires that ‘citizens can freely, and without potential loss of job, income, or general welfare, opt out of work when they themselves consider it necessary’. Decommodification is a central characteristic of modern welfare state and ‘a fundamental objective of social democracy’ (Jingjing et al., 2008: 7). In the industrialised world, differences in the development of decommodification rights between countries with well-organised trade unions and others with fragmented labour movement have underlined the prominent role of organised labour in advancing social welfare policies (See Brugiavini et al., 2001).

Although the recent literature of social welfare tends to emphasise the role of interest groups in expanding Western social welfare systems, the traditional literature extensively examines the critical function of organised labour and leftist parties in developing social welfare provision in democracies. Prominent among the theoretical accounts of the labour’s role is the Power Resources Model, proposed by Walter Korpi (2006: 87), which suggests that ‘In the tripartite societal bargaining between the state, labour and capital […] The smaller the disadvantages in power resources of the labour movement […] the more likely are state representatives to side with labour in the tripartite bargaining.’

This proposition mirrors the reality that in a democracy, pressures from below can influence political institutions and their social policies. However, this dynamic is invalid under authoritarianism, where the organised labour is utilised as a tool to serve the ruling regime (See O’Donnell, 1973). It is inconceivable that an authoritarian would allow an independent workers movement to flourish and challenge his authority. Therefore, autonomous labour initiatives are regarded by authoritarian rulers in the Middle East as anti-government organisations that must be annihilated (Bellin, 2002; Posusney, 1997).

Actually, in Egypt, one month after the Free Officers seized power and dismantled the monarchy in 1952, two textile workers – Khamis and al-Baqari – were arrested and swiftly sentenced to death after their participation in a violent protest demanded a freely elected labour union and wage increases (Alexander, 2005: 46-7). Unsurprisingly, then, organised labour in authoritarian countries tend to be a pro-government institution whose leaders are likely to be installed by the regime itself. Given how influential the labour-government relationship is for social welfare, Alexander Hicks (1999) excluded authoritarian countries from his analysis of the European welfare in the interwar period because of the different labour-government dynamics they have.

Finally, an engaging debate in the literature is on whether political openness facilitates the expansion of the welfare state. In that regard, the dominant view is the one supports the perception of modernisation theorists that democracies would provide higher level of public services than other types of governments (Lake and Baum, 2001: 618). The opposing view, as proposed by Harold Wilensky (1975), suggests that it is the level of economic development, not the type of polity, that has a significant impact on the social welfare expenditure.

From Nasser to Mubarak: Path-dependency and changes in the Egyptian social welfare

Social welfare under the monarchy and the Nasser regime
Under the monarchy, Egypt witnessed some very limited forms of social policy. For instance, in 1854, a pension programme was introduced but covered only civil servants and military personnel (El-Meehy, 2009: 760). In the early twentieth century, progressive social policies were introduced to the government, but were rejected by landlords and the limited industrialist class that considered working conditions in Egypt to be different than those in Europe and that ‘the Egyptian worker was different from his European counterpart, having more limited needs and a more restricted social horizon’ (Tignor, 1982: 26).

Thus, it could be argued that the 1952 coup was the inception point of Egypt’s modern welfare system. In their communiqué to the Egyptians, the military officers declared ‘achieving social justice’ as one of their coup’s six guiding principles. General Naguib, the first President of the Republic, (1955: 184-5) mentioned that the Free Officers sought a system ‘in which all citizens shall be entitled to protection against the ravages of unemployment, illness, and old age’.

This commitment was echoed in Colonel Nasser’s speech, on 30 April 1954, when he stated: ‘I can’t understand how there can be freedom if I am not free to find my bread and make a living, free to find employment’ (Dessouki, 1982: 58). Despite this rhetoric on social justice and welfare, the revolutionary government did not implement any substantial social reform except the agrarian reform and re-distributing lands to poor peasants (See Margold, 1957). It was only after Nasser won the power struggle against Naguib, that the Egyptian constitution of 1956 guaranteed that every citizen has the right to social security, medical care, housing, and education (Dessouki, 1982: 60).

Still, the dramatic change in Egypt’s political and economic climate – and consequently, in the social welfare – occurred when President Nasser nationalised the Suez Canal in 1956. The subsequent Tripartite Aggression of Britain, France and Israel against Egypt, allowed the regime to further nationalise many domestic and foreign companies in the country. The confiscation of these assets paved the way for the government to assert itself as the sole economic hegemony. With Nasser launching his industrialisation revolution, the social welfare needed to expand to support this enterprise.

To win Egypt’s workers, the regime provided social and economic security along with symbolic representation to the labour movement in exchange for controlling it (Ibid, 73). The organised labour was not an independent actor, then, but a pro-government subject. Additionally, the introduction of ‘Arab Socialism’ by Nasser allowed the government to legitimise its rule through generous welfare provision. All these developments resulted in a flourishing welfare system that consisted of industrialisation programmes and residualist programmes (Kawamura, 2016: 88).

The residualist programmes, such as free health care, were intended to target the vulnerable strata, and had no direct connection to the industrialisation efforts. Contrarily, the industrialisation programmes were designed to advance Nasser’s modernisation plans. An instance is the social insurance programme which consisted of five schemes: work injury, old-age, disability and death, unemployment and health insurance (Ibid, 89). This programme benefited mainly urban workers especially those working for the government and state-owned firms.

The majority of private sector employees, however, were not covered by the Programme because their employers did not take part in the scheme in order to reduce their costs (Loewe, 2000: 14). This trend will continue in the future due to the failure of the National Social Insurance Organisation – the responsible governmental body for the programme – to effectively oversee private employers (Ibid, 15).

Under the Nasser regime, social welfare programmes, such as unemployment insurance, was not only determined by economic fluctuations but also political circumstances. This was evident when the workers in the Suez Canal zone lost their jobs after the 1967 war due to their dislocation to the inner cities. Those workers received unemployment compensations that were quite large due to the fact that they were better paid than the majority of other public-sector employees (Garrison, 1976: 231).

In conclusion of the Nasser era, it might be worth mentioning that however the social insurance programme
benefited Egyptian workers, it served also as a mechanism of channelling contributions from workers and private firms to the government. Since this programme was a contributory scheme, the government collected these revenues and invested them in long-term industrial projects. According to Hansen and Marzouk (1965: 217-219), the return on investment of the surplus from the social insurance programme reached, in 1961-1962, a peak of 4.7 million Egyptian pounds.

**Social welfare under the Sadat and Mubarak regimes**

In the aftermath of the 1973 victory against Israel, President Sadat sought to strengthen Egypt’s relations with the world, in particular the U.S. The new outlook of Egypt coincided with a global trend of restructuring social welfare systems due to the prevalence of neo-liberal economic agenda across the globe (See Pierson, 2001).

Therefore, once the Sadat government followed the trend and adopted an open-door economic policy (*al-Infitah*), the income gap between the rich and the poor has increased. So, while a few in the upper class gained the benefits of *al-Infitah*, the rest of the population faced a soared inflation that damaged their living standards (Amin, 2011: 55-6).

Moreover, following the IMF’s guidelines, when the government tried, in 1977, to lift food subsidies, the major cities erupted with what came to be known as Bread Riots. These wide-scale protests forced the regime to immediately rollback the subsidy cuts and to renew providing populist welfare which, in turn, strengthened path-dependent continuation of Egypt’s social welfare system.

During the Sadat era, both public services and social welfare programmes started to crumble. An instance was the healthcare system that ‘fell into abysmal squalor; standards of sanitation were appalling, quality nursing almost absent and equipment old and deteriorating’ (Hinnebusch, 1985: 272). Moreover, the commitment to public employment of higher-education graduates rendered the government over-staffed and less productive. Still, public-sector workers’ salaries were, at the time, approximately 1.5 times higher than those in the private sector (Posusney, 1997: 175).

The general deterioration of living standards of the majority of Egyptians prompted the Sadat government, especially after the 1977 bread riots, to strengthen the populist features of the welfare system that have been established under Nasser. What enabled the government to implement expansionary welfare measures was the increase of external revenues. These revenues included rising oil prices, the return of tourism after the peace treaty with Israel, the Suez Canal revenues, and foreign aid.

Therefore, in response to the regime’s legitimacy deficit, the Sadat government expanded the social assistance programme. Law 30/1977 specified that the government should provide those who were not covered by the social insurance programme with non-contributory, means-tested payments, and that the government should introduce a ‘chastity pension’ for unmarried women (Bibars, 2001: 83). Additionally, the government introduced a new safety net – the Sadat Pension – as a direct non-contributory scheme to aid working people. The view of the new pension as an important source of legitimacy was underlined by the fact that the President put his name on it (Sabry, 2005: 83).

Furthermore, it should be noted that two remarkable changes have characterised the Sadat era’s social welfare. First, the expansion of social insurance to groups that have not been covered before, such as employers and the self-employed; Egyptian migrant workers; and casual workers. The Programme provided these groups with three schemes: old-age, disability and death pensions. Second, the gradual shift of the widely stratified Social Insurance System from ‘a fully funded scheme where employees pay their contributions that should be invested and then repaid [back] as pensions. […] to [a] partially funded on a PAYG [pay-as-you-go] with a defined benefits scheme’ (Selwaness, 2012: 4).

Many of the trends of social welfare and politics under Sadat continued and further deteriorated under Mubarak. In particular the marginalisation of organised labour and its replacement with a new business class that
established strong connections with the regime. Also, the political and economic structures that supported the Sadat’s populist welfare system eroded in the new era. Still, the changes in social welfare under Mubarak were not dramatic, but rather path-dependent (Kawamura, 2016: 138).

When Mubarak assumed power, in 1981, the government's revenues represented approximately 60% of GDP. In the late 2000s, however, the revenues decreased to only half of that in the 1980s. To Soliman (2011: 3), Egypt has, since the mid-1970s, represented ‘an authoritarian regime whose stability had depended on a quasi-rentier state that obtained a large influx of money from oil, Suez Canal, and foreign aid’. The fact that the government’s revenues declined once the rentier incomes decreased confirms the Ayubi’s thesis mentioned previously about the weak Arab state that can easily repress, but hardly extract taxes (See also Ibid, 42).

However, the Mubarak regime has adopted a Structural Adjustment Programme, designed by international donors, in the 1990s, the benefits of economic liberalisation did not trickle down (See Saif and Leone, 2008). Indeed, household expenditure surveys confirmed that the real per capita consumption has declined between 1990 and 1996, with the percentage of those living below poverty line increased from 40% (in all areas) to 45% (in urban areas) and 50% (in rural areas) during the same period (Mitchell, 1999: 32).

Consequently, the number of people fell into poverty has increased as well as the number of protests against the neo-liberal policies, specially by the working class. This was a remarkable change in the position of organised labour from a pro-government satellite under Nasser, to a marginalised group under Sadat, to an anti-government movement under Mubarak.

Under such conditions, maintaining the populist welfare programmes was the sole means of legitimising Mubarak’s rule that was increasingly unpopular. Therefore, the Mubarak government – despite the continuous pressure from the U.S. and the IMF – has declined to reform or significantly change the food subsidy programme. Additionally, in co-operation with the World Bank, a new safety net programme, along with food subsidy and social assistance, was introduced to help alleviate the widespread poverty – The Social Fund for Development (El-Mahdi, 2011: 97). Nevertheless, under Mubarak, a new labour law has practically ended both job security and the state’s commitment to public employment of higher-education graduates (Bayat, 2006: 140).

Albeit it was clear to the Mubarak government that the majority, if not all, of the social welfare programmes were dysfunctional, the regime’s response was to abstain from undertaking any serious reform that could have improved the people’s lives. That is because the alliance of crony capitalists and the authoritarian ruler had strong incentive to maintain the status quo and avoid any reform that could trigger popular protests that could disrupt the alliance’s privileges.

That is to say, the Mubarak government prioritised its survival and considered a dysfunctional social welfare system a tool to maintain political order. The regime did not sincerely deal with the country’s problems. Ultimately, these overlooked problems have energised millions of Egyptians to take to the streets to bring down the Mubarak government that was removed from power in 2011. Mubarak has gone but the problems – that are discussed in the next section – still persist.

**Shortcomings and diversity of Egypt’s social welfare**

**Shortcomings of social welfare systems**

Markus Loewe (2000: 13) argues that the inability of Egypt’s social security systems to improve income distribution or economic efficiency is because ‘they themselves are inefficient and inequitable.’ Even though the problems of Egypt’s welfare are very complicated, they could be arranged into five main shortcomings: fragmentation; poor administration and limited coverage; inefficiency and inequality; low benefits; and high dependency ratios.

First is the fragmentation of social welfare programmes. Since Egypt has six different social insurance schemes
that vary greatly in terms of generosity of benefits and the risks covered, it could be imprecise to speak of an Egyptian social insurance system. These six schemes according to their insured parties are: (1) governmental, public and private sector employees; (2) members of some professional syndicates and employees in foreign and large Egyptian firms; (3) migrant Egyptians, self-employed workers and employers; (4) employers and employees draw incomes high enough to expand the provisions in the previous scheme; (5) informal sector workers; and (6) the army personnel and top bureaucrats (See Ibid, 7-8). The sixth scheme enjoys the most comprehensive and generous provisions, it’s non-contributory scheme financed through taxes and it’s not supervised by the National Social Insurance Organisation (NSIO).

Another aspect of the fragmentation is the administration of ‘public welfare sector’ through three different bodies: Ministry of Insurance and Social Affairs (MISA); Ministry of Endowments; and Nasser Social Bank (NSB). Differently, the food subsidy programme is administered by the Ministry of Trade and Supply (Loffredo, 2004: 4), while the Social Fund for Development is overseen directly by the Prime Minister. Similarly, Egypt’s health sector is fragmented into five systems, each of them is accessible to a certain group of the population (Loewe, 2000: 10). For instance, the army and top-bureaucracy receive first-class health service in exclusive hospitals financed by tax money, while the public hospitals, run by the Ministry of Health and Population, are in a dismal state.

Second is poor administration and limited coverage. As mentioned previously, Egypt has a weak extractive taxation power. This explains how underreporting salaries and wages became a common practice in the country. Additionally, many employers and employees avoid enrolling in social insurance either because their doubts about the returns to contributions or the high contribution rates. In general, with the privatisation of public enterprises, the percentage of insured workers to the total workers declined from 51.6% in 1998 to 41.8% in 2006 (See Roushdy and Selwaness, 2012: 11-15, also figure 4, in Appendix).

Third is inefficiency and inequality. Most of Egypt’s welfare systems privilege urban upper and middle classes while discriminate against the poor and marginalised groups. Among these groups, women are the most underprivileged. More than third of Egypt’s women-headed households are living below the poverty line (Assaad and Rouchdy, 1999). This shortcoming is also reflected in the fact that insurance benefits for the rich and state’s elites are far more generous than those for the poor.

Fourth is low benefits. In a country ravaged with soaring inflation rates, a pension formula that does not provide for automatic adjustment for inflation means that the real level pensions would be far below the poverty line for many households (Loewe, 2000: 9). For instance, if an earner was injured or dead at young age, the contributions accumulated were so low that his family members cannot afford to survive only on his pension (Ibid, 15).

Finally, the social insurance’s high dependency ratios is the fifth shortcoming. Albeit the country has a young population, the percentage of the programme’s beneficiaries to the population reached 38% in1998. This percentage was, partly, inflatied by the introduction of early retirement schemes in 1990s to facilitate the privatisation of public enterprises (Maait et al., 2000: 4).

Egypt’s welfare mix

To borrow Ian Gough’s (2014: 19) terminology, one can say that Egypt has indeed a diverse welfare mix or informal security regimes (See figure 5, in Appendix). These regimes include non-state welfare institutions, such as community and family-based security initiatives, remittances, and international organisations.

However, several family-sponsored and community-based protection systems co-exist with the public social security programmes, the former cannot compensate for the failures of the latter. Traditionally, in Egypt, family members and friends were supposed to support one another in social crises, nevertheless, these voluntary inter-personal transfers are in constant decline because of the continuous deterioration of living standards in the country. According to the Human Development Report (2008) on Egypt, the religious-based welfare accounted for over fifty percent of the civil society’s social welfare provision (See Jawad and Yakut?Cakar, 2010). Although NGOs clinics are not widespread in Egypt, most of the existing clinics are associated with mosques and religious
institutions (Loffredo, 2004).

Additionally, since Egypt is one of the leading labour-exporting countries, remittances represent the biggest source of foreign exchange after exports in the country. They also constitute an important source of income for many households (El-Sakka, 2010). Emigrant remittances to Egypt increased from 3.2 billion dollars in 1985 to 19.6 billion in 2016.

Furthermore, regarding the international organisations, the IMF and World Bank had a considerable influence on Egypt’s social welfare since the 1970s. This influence increased exponentially when the IMF approved, in November 2016, a 3-year $12 billion loan to Egypt. That is because the country has committed itself to an economic reform scheme that includes lifting subsidies, raising taxes, and floating the national currency. Immediately upon implementing the latter, the Egyptian pound lost more than fifty percent of its price against the USD and, consequently, the food price inflation topped 41 percent. That is to say, as the World Bank (2017) suggests, that ‘these [economic] reforms are exacerbating [the] social pressures’ on an already burdened population.

Conclusion

As seen in this research, studying Egypt’s social welfare systems has yielded clear answers to the research questions that guided the historical and theoretical analysis throughout this paper.

Firstly, as previously detailed, it was evident that all the Egyptian authoritarian leaders virtually utilised the country’s social welfare systems as a tool to legitimise their rule and facilitate their political enterprises. For president Nasser, the industrialisation social welfare programmes were designed to advance his modernisation plans. These programmes served as a mechanism of channelling contributions from workers and the private sector to the government that has later invested them in long-term industrial projects.

While for President Sadat, it was clear, especially in the aftermath of the 1977 bread riots, that the populist welfare provision is necessary to avoid political instability. In order to appease a population that has largely been negatively affected by al-Infitah, the Sadat government extended the social insurance coverage to new beneficiaries, expanded the food subsidy programme, and introduced new pension schemes such as the ‘Sadat pension’.

Differently, under the Mubarak government, the role of the state in the economy was largely curtailed thanks to an aggressive neo-liberal agenda that benefited a class of crony capitalists while the rest of the population were impoverished. To protect the privileges of the authority-wealth alliance, Mubarak was reluctant to reform any of the many dysfunctional social welfare programmes that might trigger popular protests, despite the IMF and the World Bank’s pressures to reform these programmes. Merely for political expedience, President Mubarak decided to preside over a collapsing welfare state.

Finally, it has been shown that Egypt’s social welfare systems were largely a failure. That is because these systems are highly stratified, fragmented and overseen by different, and perhaps adversarial, organisations. Also, these systems tend to discriminate against the marginalised, the rural, and the women. With much generous benefits given to the more well-off than to the needy. Additionally, these programmes suffer from low coverage and yield, mostly, very low benefits that are unlikely to tangibly alleviate households’ poverty or enable them to cushion the long-term impacts of social crises.

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