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Hosni Mubarak's Economic and Social Policies in Perspective

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Four years after the revolution in Egypt it is clear that toppling Hosni Mubarak was not the real challenge, improving the nation's ailing economy was the real test. One of the main challenges remains the inequality in the distribution of income and wealth in Egypt, but the policies of ʿAbd al-Fattah el-Sisi's government may increase inequality. Hosni Mubarak's legacy is generally considered to be one of economic growth, inequality in the distribution of income, political repression, and corruption. This description, although accurate, is too simple. His legacy also included a number of significant social policy initiatives that are reviewed here.

Samir Radwan, the former finance minister and a professor of economics, has stated that the current government should seek to build on what was achieved during Mubarak's regime. Mubarak's legacy is multi-faceted: maintaining peace with Israel, securing political stability for almost thirty years, achieving economic development, and, most importantly, implementing major changes in social policies for the first time.

These changes were made possible by the massive military and economic assistance Egypt received from the United States after the March 1979 Egyptian-Israeli Peace Treaty. Successive U.S. administrations viewed Egypt not only as a moderating influence in the Middle East, but also as a strategic asset vital to U.S. interests in the region. Official U.S. aid was used to finance part of Egypt's defense budget and reduce the burden of defense spending. These funds allowed Egypt's economy to recover from the effects of mismanagement of the state-controlled system. In addition, for broad sections of the Egyptian population, assistance from the U.S. created opportunities for social mobility and a better standard of living.

The United States also played a crucial role by pushing Egypt to adopt the International Monetary Fund (IMF) recommendations to improve the investment and trade environment in Egypt. These included privatization and liberalization as well as efforts to attract foreign direct investment. The U.S. also helped to modernize the country's financial sector by helping to improve macroeconomic stability, thus facilitating the development of the private sector.

During the period from 2000 to 2010, U.S. support for Egypt was much greater than official figures suggest. The total flows of U.S. resources to Egypt during this period included over $20 billion of official aid, 70 percent in military assistance and 30 percent in economic aid. This constituted 36 percent of Egypt's defense budget and about 25 percent of total public investment. In addition U.S. foreign direct investment (FDI) was $25.5 billion, or 35 percent of all FDI. The total amount of private and public funds flowing from the U.S. to Egypt during this period exceeded $45 billion.

Egypt's economy was not diversified and was a hybrid combination of state capitalism, dependent private capitalism, and "rentierism." It was primarily based on state-owned enterprises, a private sector that was often dependent on the state for subsidized utilities and marketing facilities, and the collection of "rents" from various sources: Suez Canal tolls, tourism, and remittances (money sent home by Egyptians working abroad) , as well as oil revenues and long-staple cotton exports.

While overall government control diminished under Mubarak, control over industry, tourism, financial markets, and oil-production remained in place. The government controls over agriculture were designed to maintain law and order as well as to extract a surplus and thus fund national development. This was also a political technique designed to thwart opposition to the government, as it favored the potentially disruptive urban population by insuring access to basic food staples at low prices. This practice of subsidizing the core needs of the urban population – food, housing, transportation, energy, healthcare, education, and jobs – to ensure political stability (even if at the expense of farmers) took priority over economic development.

While growth has occurred in agriculture as well as in the industrial and service sectors, development in the sense of qualitative change was very limited. According to the World Bank, the top quintile of earners has increased its share of income since the 1990s, while the bottom quintile has seen its portion of the pie shrink. As a consequence, poverty and inequality increased, particularly in rural areas.

For many years, bureaucratic hurdles delayed the application of some socio-economic reforms. Consequently, the rate of economic growth, inflation, unemployment, and the exchange rate were inconsistent and economic development was limited. In the 1980s, the gross domestic product grew at an annual average rate of 7.7 percent in real terms, but it declined to only 4.2 percent in the 1990s (similar to what it was in the 1960s). This was growth without development, especially in the rural economy, which provided a livelihood for more than 40 percent of population.

In the late 1990s and early 2000s, the government realized that policies of economic control amounted to strangulation. They also observed that political stability and regime maintenance came not just through a massive army, police, and secret police apparatus but through economic and social development as well.

In 2004, the government liberalized foreign trade and the foreign exchange market as well as domestic price controls. In addition the government embarked on an ambitious program of privatization and financial sector reform. These reforms spurred rapid growth, underpinned by massive foreign investment, as well as gains in productivity and a favorable external environment.

During the 2005/2006 and 2007/2008 fiscal years, real gross domestic product growth averaged seven percent a year, almost double the average rate achieved in the three previous years. Net foreign direct investment averaged more than $9 billion a year, which was ten times higher than in previous years.

More than half a million new jobs were created per year, which was fifty percent more than in the period 2002/2003 to 2004/2005. Exports of goods and services increased by 75 percent and the stock market doubled, while official unemployment figures fell from 11.2 percent in 2004/2005 to 8.3 percent in 2007/2008. Finally, the country's external debt was halved and fell to the equivalent of 21 percent of gross domestic product.

The liberalization measures, which included privatization, devaluation of the Egyptian pound by 40 percent, the closing of inefficient businesses, the loss of jobs, and an increased rate of inflation (to an average of ten percent during five years) all deeply affected the standard of living in Egypt. This occurred despite the rapid increase in subsidies on food and petroleum products to 8 percent of the gross domestic product by 2010.

Despite this, according to the U.N. Human Development Report, the poverty rate decreased by only one percent over the period from 1990 to 2005. Following the rapid increase in international food prices in 2007 and 2008, Egypt, for the first time, experienced more than 700 labor strikes and lock-outs involving more than 400,000 workers in the private and public sectors. The crisis escalated and social tension was further aggravated by the scarcity of subsidized bread in March and April 2008. This was largely the result of the rapidly rising price of wheat on international markets, which encouraged bakeries to sell some of their quota of state subsidized flour on the black market for huge profits.

Given the turmoil in international financial markets beginning in mid-2007, and the soaring prices of food and energy, the gravity of Egypt's socio-economic problems was unprecedented. Widespread social unrest in urban and rural areas compelled Mubarak to reassess social policies that had been overlooked by his administration. In fact, Mubarak rejected the recommendations of his advisers and backed a radical change in social policy. This did not, of course, prevent the January/February 2011 revolution, but it did give his regime a few more years in power.

In May 2008, the government took radical measures to improve the population's standard of living, including increasing wages and salaries by 30 percent. Children born between 1988 and 2005 were added to their parents' ration cards, which enabled those families to buy more essential foodstuffs at subsidized prices. Between 1988 and 2008 the government had stopped adding newborn children to their parents' ration cards, and thus disregarded the impact of the demographic developments on the standard of living of a large part of the population. The government's May 2008 reform added more than 11 million people to the 55 million who were benefiting from the ration cards.

The Egyptian economy was resilient in the face of the international economic crisis of 2007 to 2009. Financial contagion was contained and investor confidence in Egypt improved after March 2009, and the stock market rose as did official foreign exchange reserves. Between 2002/2003 and 2009/2010, the annual growth of GDP averaged 5.4 percent compared with 4.3 percent in the 1990s and 2.1 percent between 2010/2011 and 2012/2013.

In April-June 2010, the government also introduced two important new laws: the National Insurance Law and the Health Insurance Law. The National Insurance Law radically changed the 35-year old pension insurance system. It provided a pension for every citizen in the country and immediately raised the pensions of low and medium income citizens by 25 to 200 percent. It also provided work injury insurance and allocated unemployment benefit for six months. The new law enabled citizens without a pension to receive government support for the first time in the country's history, which most benefited low and medium income earners.

The Health Insurance Law provided universal health insurance, replacing a system that had covered only 55 to 60 percent of the population. This was to be implemented over a period of seven years. The first phase, which was planned for 2010/2011 in Sohag, Upper Egypt, was to provide coverage for more than 4 million people, including more than 600 villages, or two-thirds of the 1,000 poorest villages in Egypt.

Egypt was unable, for political reasons, to use the massive U.S. aid to promote its own economic development on a more efficient basis. Nor was the U.S. willing or able to demand that Egypt use these resources more effectively. The U.S. shared the Egyptian government's political priorities that ultimately trumped economic development. In other words, regime stability took precedence over economic efficiency.

The United States played a crucial role in Egypt's economic growth by fostering an environment conducive to investment and trade, ensuring the flow of huge financial resources, helping to increase economic growth, and contributing to the improved standard of living of the Egyptian population.

In conclusion, Hosni Mubarak's heritage included maintaining peace with Israel, securing political stability for almost thirty years, achieving stable economic growth in the early 2000s, despite the tumultuous international economy and, most importantly, introducing – for the first time in the Arab World – a comprehensive welfare policy. Mubarak's welfare policies, inherited by the current government, will present 'Abd al-Fattah el-Sisi's administration with both a major challenge and an opportunity.

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